RON MEYER

Mapping the Mind of the Strategist

A Quantitative Methodology for Measuring the Strategic Beliefs of Executives

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A quantitative methodology for measuring the strategic beliefs of executives

Het denken van de strateeg in kaart: Een kwantitatieve methodologie voor het meten van de strategische denkbeelden van leidinggevenden

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To my father

for his trust, support and

shaping of my cognitive map

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ACKNOWLEDGEMENTS

One of the first strategy books I ever read was Kenichi Ohmae's *The mind of the strategist* (1982). While his work left quite an impression due to its remarkable analytical insights, I was a bit disappointed because very little was said about the actual thought processes of executives. The mind of the strategist remained a black box. Now, many years later, having completed a research study into the strategic belief structures of executives, it seems only fitting to title this book *Mapping the mind of the strategist*, with a nod to one of its early inspirations.

It also seems fitting to start these acknowledgements by paying tribute to the other sources of intellectual inspiration, without whom this study and my overall academic development would have taken a different turn. The most important works for me have been those of Henry Mintzberg, Geert Hofstede, Karl Weick, Andrew van der Ven, John Dunning, Christopher Bartlett, Sumantra Ghoshal, Charles Hampden-Turner, Fons Trompenaars, Andrew Campbell, Michael Goold, Anne Huff, Gareth Morgan and Chris Argyris. To all of them I am very grateful for their ideas, but also for being role models of combining analytical depth and rigor with elegance and practical relevance.

But luckily I also had a lot of intellectual stimulation much closer to home. It started with the man who convinced me to stay at the university, teach strategic management together with him and help him to build up the young Rotterdam School of Management, Jaap de Smit. He introduced me to systems thinking and encouraged me to take an international perspective, borrowing the best from the English-language world, while realizing that the rest of the globe also had much to offer. Soon after that I met Bob de Wit, together with whom much of the conceptual framework was developed that is at the basis of this research project. It was Bob's intuition, contrarian-thinking and never-ending drive for achieving the best that have had a lasting impact on the way I think, for which I am truly thankful.

I also had the luck to end up in a Department of Strategic Management with some very thought-provoking people. Our *éminence grise*, Arthur Wassenberg, was, unknown to him, a great inspiration, while my other colleagues, Hans Schenk, Wilfried Ruigrok, Tom Elfring, Wietze van der Aa, Stelios Zyglidopoulos, Peter de Wolf, Emiel Wubben, Wim Hulsink, Wynand Bodewes and Rob van Tulder provided a rich and positive environment for stimulating discussion. Working together with Rob convinced me that he was also the right person to be my PhD supervisor, given his ability to combine intellectual challenge and having a broad perspective with being practically supportive and leaving me considerable freedom to set my own direction and pace. He has had to have a substantial amount of patience, as my project planning was extended and extended, but not once did he doubt its eventual completion and my commitment to its quality. Rob, to borrow one of Arthur's sayings, *chapeau*.

While working with Bob on the conceptual framework, which resulted in our textbook *Strategy – Process, Content, Context: An International Perspective* (and its alter-ego *Strategy Synthesis*), I also had the pleasure of working with some wonderful people. During the first edition Marc Huijgens was our assistant, while during the second edition it was Pursey Heugens. By the time the third edition rolled around, Bob and I had started Strategy Academy and we had an even broader base of great people to support and stimulate us. From the very beginning Martijn Rademakers has been our intellectual sparring partner, with Peer Ederer, Dafir Kramer, Leonard Zijlstra, Hester Duursema, Roel Meijers, Mascha

Brouwer, Wolter Lemstra, Linda Walstra and Casper van der Veen contributing a lot along the way. Roel, Leonard and Bob were instrumental in carrying out many of the feedback interviews used in this study, while Hester and Casper deserve extra recognition, as they helped with a considerable amount of the hard work, sending out questionnaires and doing statistical analysis together with me, while even giving me the impression they were enjoying the trip. In this context, I am also heavily indebted to Fabienne Fortanier, my Fab For, for her guidance through the jungle called statistics. With never-ending exuberance she helped me find my way around SPSS and actually cured me of my statistofobia.

When it came to designing the Strategy Profiler instrument, I was initially out of my depth, as a business strategist plunging into the field of psychometrics. However, I was very lucky to be introduced to two experts in the field. First, I came into contact with Jan-Pieter van Oudenhoven, who gave me various insights into measuring beliefs, particularly in a cross-cultural setting. Then I met Wouter Schoonman, who as an expert psychometric instrument designer helped me to devise the Strategy Profiler. As a skilled technician he not only helped to outline the structure of the instrument, but he also took care of all software development, together with his son Kasper. Moreover, he stayed on during all phases of testing and improvement, setting high standards and inspiring all people within Strategy Academy to want a tool that could compare with the best. Wouter, without you I would still be struggling – thanks a million!

As the Strategy Profiler proved to be a useful instrument and of the right overall design, we called in Frank van Lith and Matthijs Laan of B3Partners to turn the provisional software into a professional application. The result was even above expectations – great work guys. Of course, thank is also due to the dozens of organizations and hundreds of individuals willing to fill out the Strategy Profiler. There are too many respondents to mention separately, but I do want to acknowledge the enormous goodwill and openness of so many people that I have had the pleasure to work with during the last few years. Many wondered what I was going to do with the results – I hope this study justifies your confidence and effort in filling out the web-questionnaire.

Along the way I had the opportunity to work with three other people, who also have had quite a bit of influence on my thinking. Eight years ago, Kees Breed approached Bob and me to explore the applicability of our conceptual framework in the public sector. This resulted in a very inspiring project, a joint book and a PhD study for Kees, as he wanted to measure the strategy perspectives of the top civil servants in the Netherlands. His challenges and ideas have been a valuable input for my project. Later I also met Barry Johnson, who wrote a book on ‘polarity management’. Working together with Barry and seeing how he deals with connected opposites has been a great stimulus to my thinking, while he is also a wonderful role model as trainer and human. Last, but not least, I have had the privilege of working together with my almost namesake, Ronald Meijers, on the topic of leadership. Ronald is a brilliant sparring partner, intellectually and behaviorally, and an inspiring example of a thinker and manager, who practices what he preaches…and preaches what he has experienced in practice.

Thank is also due to a number of people who helped me out in completing this project. First, I would like to express my appreciation to the members of my PhD committee, Slawek Magala, Daan van Knippenberg and Muel Kaptein, who needed to plough through an enormous number of pages in a very short period of time. My office manager for many years, Karin Feteris, has also been instrumental in finally getting the project finished, not only by actively contributing to the layout, but equally by shielding me from the many demands on my time.

In the end, however, my closest family members have been at the basis of my ability to get this project completed – even more, they have shaped who I am. My father, to whom

this book is dedicated, has been my main role model ever since I was a boy. He showed me that to be an intellectual was a state of mind, not a level of schooling. He allowed me to develop as a free-thinking individual and supported me, even when he did not agree. And he encouraged me from the very beginning to pursue my dreams, among which was completing my PhD. Dad, you are now going to have to find another line than "so, when are you going to finish your studies?"

My three children, Suzanne, Thomas and Simone, have also been a great support. Explaining things to them, as intelligent outsiders, has been a delightful way of finding the best words to write things down in this book. And instead of complaining that their father is in front of his computer again, they have continuously asked how things are going and what I am writing about. Thomas, now you are going to have to find another line than "he's on his own planet again."

But most credit goes to my life partner, best friend and soul mate, Johanna. I had no idea what I had in me until we met. Being obsessed with the mind of the strategist, I 'forgot' a strategist needs a heart too. In more ways than one, she opened my eyes to the power of the heart – the value and impact of emotions, relationships, values and meaning. This has given me the strength to change my entire life around, one result of which is finally finishing this book.

PART I:

RECOGNIZING DIFFERENT VIEWS:

STUDYING STRATEGY PERSPECTIVES

Chapter 1

THE RESEARCH PROJECT

1.1 INTRODUCTION

Are you socially progressive or more conservative? Are you an economic liberal or inclined to support stronger government intervention? Do you favor a secular state or should religion be given a more prominent role in government affairs? Would you characterize yourself as an internationalist or do you lean more towards national autonomy? What stance do you take on defense issues – are you a hawk or a dove? And on ecological matters, are you a green or do you place more emphasis on economic growth? By answering these questions, you will have painted a rough picture of your political views and how you would like to see *government policy issues* approached. On the basis of this general *political profile* your probable voting behavior at the next elections might even be predicted.

Now characterize your views on *business policy issues*. Which preferences do you have when it comes to developing a strategic course of action for companies? Which approach will you probably favor next time your organization needs to make an important strategic decision? What is your *business strategy profile* that will predict the type of strategic behavior you are likely to exhibit?

Almost all business executives whom I have asked these questions have looked somewhat puzzled. Generally their answer has been that business strategy depends on the situation, not on any inherent preferences. While they acknowledge that their political choices are based on a particular worldview, they argue that business strategy choices are based on the specific circumstances in which they find themselves. In other words, their governmental policy choices might be based on a certain *predisposition*, but business policy choices are *situational*.

Yet, this does not sound very convincing. Why would peoples' worldview influence some policy choices and not others? Why should there be political ideologies and not business ideologies? Could it be that people are just more aware of their political views, because public debate has articulated differing opinions and forced individuals to specify their preferences? Could it be that in business there is less explicit debate between and within companies to identify differing perspectives on how to develop business strategy?

Different strategy perspectives might be equally difficult to recognize for executives as different cultural perspectives. Executives usually do not see their own behavior as typically French, Indian, American, Japanese, British or Brazilian, unless they are confronted with people brought up with different beliefs, values and norms. Only in such an international context do executives become acutely aware of their own cultural ideology and how it

conflicts with the views and preferences of others. It then becomes clear that their culture has a strong dispositional impact on their management choices (Hofstede, 1980; Trice and Beyer, 1993). In the same way, executives might only acknowledge their distinctive strategy views when confronted with a different business ideology.

But is there reason to believe that there are significantly different strategy perspectives that predispose executives to particular types of strategic behavior? In the strategic management literature there has been relatively little research done into the existence of different 'strategy paradigms' among executives (Hamel and Prahalad, 1994; Clarke and Clegg, 1998). Would it be worthwhile to research possible differences in strategy perspectives? Three arguments can be put forward to support the assumption that the answer should be affirmative.

First, the strongly growing managerial cognition literature has provided a large body of evidence relating executives' *cognitive maps* to their strategic choices (e.g. Day and Lord, 1992; Ginsberg and Venkatraman, 1992; Porac and Thomas, 2002; Thomas et al., 1993; Tyler and Steensma, 1998). The central theme in this literature is that executives do not approach strategic issues *tabula rasa*, but impose existing mental templates to interpret events and take action (March and Simon, 1958; Walsh, 1995). These cognitive representations of reality are based on past experience and are used to structure new situations 'top-down' (Abelson and Black, 1986). Nisbett and Ross (1980) refer to this dominant form of mental information processing as *theory-driven*, as opposed to a *data-driven* approach, where new mental models are formed to deal with novel situations. So, while executives might think that they are fully open to all external stimuli and only 'make up their mind' once all the evidence is in, in practice their cognitive maps direct their perceptions and appropriate actions are generally selected from an existing repertoire of strategic responses (Dutton, 1993; Stubbart, 1989). As these cognitive maps are formed over time in interaction with other group members, a shared understanding often evolves that further strengthens joint beliefs and preferences (Finkelstein and Hambrick, 1996; Prahalad and Bettis, 1986). What can be concluded from the managerial cognition literature is that strategic choices are not only strongly influenced by existing strategy perspectives (in the form of cognitive maps), but that strategy perspectives vary from group to group, and even from person to person (this point will be further developed in chapter 2).

A second indicator pointing to significant differences in strategy perspectives among executives can be found in the diversity of views expressed in the strategic management literature. In this literature the variety of perspectives is overwhelming, often to the bewilderment of executives searching for a commonly accepted best practice. Much to their chagrin they find that for most analyses and prescriptions given by researchers and theorists, other writings can be found that argue quite the opposite (De Wit and Meyer, 1994; Whittington, 1993). Some of this theory diversity has been traced back to differing disciplinary assumptions, for instance between economists, sociologists and psychologists (Bailey & Johnson, 1992; Mintzberg, 1990). Yet some of the variety seems to reflect the differences in strategy perspectives found among executives. As the diversity of views within the strategic management literature shows no sign of declining, it must be concluded that no universally accepted best practice has emerged as common paradigm, neither among strategy theorists, nor among strategy practitioners (this point will be further developed in chapters 3 to 12).

The third reason to suspect that executives have different strategy perspectives that shape their strategic choices is practical experience. Any executive, researcher or consultant with an interest in strategy development within firms will recognize that no two people will look at the same information in the same way. Actually, a large part of the strategy process revolves around the resolution of conflicting interpretations of strategic issues and the formation of a common point of view on how the organization should move forward. The

more varied the participants in the process – by background, function, industry or nationality – the larger the differences in worldviews (Dutton & Dukerich, 1991; Hambrick and Mason, 1984). This experience suggests that different people not only 'speak another language', but also have different beliefs, values and norms, that lead them to take a different perspective on how strategy should be developed. So, this 'face validity' check also points to the existence of researchable differences in strategy perspectives among executives.

Taken together, these three arguments have provided the impetus to launch a research program directed at identifying differences and similarities in strategy perspectives among business executives. The ambition has been to move beyond the recognition of differences, toward the development of a means for actually capturing the differences on some type of scale. The result has been the creation of a strategy perspective measurement instrument, which quantifies the strategy perspective of each individual executive.

In this chapter the details of this research project will be presented, starting with an exploration of the research context (section 1.2), definition of the research question (section 1.3) and clarification of the research objective (section 1.4). Subsequently, the research process will be described (section 1.5), leading up to an overview of this book (section 1.6).

1.2 THE RESEARCH CONTEXT

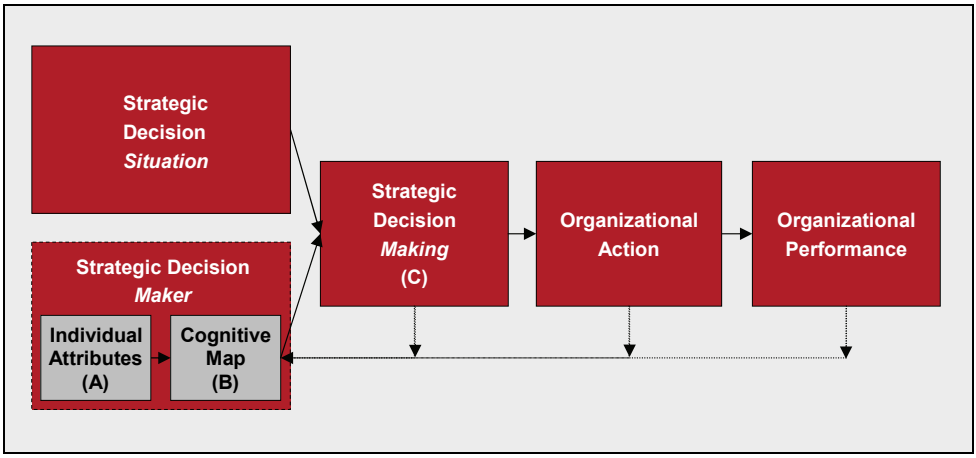
This research project is directed at examining executives' cognitive maps within the context of strategic decision-making[1]. In figure 1.1 a simplified view is presented of the overall strategy process, whereby the general relationship between executives' cognitive maps and the strategy process is identified. This representation of the strategy process deviates from other major research traditions within the field of strategic management in its emphasis on the information-processing aspects of the strategic decision-makers. Executives are seen as 'information workers' (McCall and Kaplan, 1985), absorbing, manipulating and disseminating information about strategic issues facing their organizations. They must make strategic decisions within 'information worlds' that are extremely complex, ambiguous and munificent (Mason and Mitroff, 1981; Schwenk, 1984), while their capacity to acquire, process and store information is severely limited (Simon, 1947; Miller, 1956). To deal with this situation the human mind uses past experience to construct a cognitive map (or knowledge structure) as a simplified representation of the world, which is applied as a template to comprehend new situations and to guide behavior. Hence, when executives engage in strategic decision-making they bring in their existing cognitive maps and attempt to make sense of the strategic decision situation based on this understanding of the world. The actual decision made will be the outcome of many influencing factors, but a significant part of the decision-making process consists of comparing various executives' interpretations of the situation and building a common understanding of the most appropriate organizational course of action. This interaction, as well as the experience resulting from the actual organizational action and performance, will in turn have an impact on the further development of the executives' cognitive map (see dotted arrow).

This 'cognitive' view implies a major departure from rational decision theory, which has been the implicit assumption of much of the earlier work in the field of strategic management. In this 'rationalist' literature, organizational action is based on a factual evaluation of situational variables, such as industry structure, competitor behavior, consumer

[1] As the terms 'manager', 'leader' and 'strategist' all seem to carry unintended connotations, in this book the more neutral term 'executive' will be used throughout to refer to functionaries whose tasks include setting organizational strategy.

demands, firm resources, distinctive competences and current positioning (e.g. Andrews, 1987; Porter, 1980). Strategic decision-making is viewed as an analytical procedure, whereby the internal strengths and weaknesses of the firm and the opportunities and threats of the environment largely dictate the optimal strategy. Occasionally this literature admonishes executives to 'use their creativity', but it is not specified what creativity is or how the strategic decision maker might invoke this illusive capability. For better of for worse, the 'mind of the strategist' remains a black box.

FIGURE 1.1
The Strategy Process and Managerial Cognition



The cognitive view, on the other hand, fits within the behavioral decision theory tradition and is complementary to the rich literature describing strategic decision-making in political and sociological terms. Politically-oriented work emphasizes the importance of conflicting interests, diverging goals and differing power bases, while explaining decision-making in terms of coalition building, internal and external negotiations, and open conflict (e.g. Pettigrew, 1993; Pfeffer, 1992; Ruigrok and Van Tulder, 1995). Sociologically-oriented work emphasizes the importance of social rules, legitimacy and group acceptance, while explaining decision-making in terms of institutionalization and social pressure to conform (e.g. Powell and DiMaggio, 1991; Scott, 1995). While in some of this literature the strategic decision maker remains a black box, caught up in the political and social dynamics of the decision-making process, much work has been done on how political and social processes shape cognition and vice versa (Chattopadhyay et al., 1999; Eden and Spender, 1998; Fiske and Taylor, 1984; Ginsberg, 1995; Levine et al., 1993; Weick, 1995).

While much of the work on managerial cognition and behavioral decision-making deals with operational issues, there has also been considerable attention paid to strategic decision processes. The research in this area has made advances on four different fronts (see figure 1.1):

- *Content of cognitive maps (B)*. The starting point of most research is to empirically identify the actual content of executives' cognitive maps. Much of the work in this area is

emic in approach, as opposed to *etic*[2]. For instance, Dutton et al. (1989) analyze Port Authority executives' orientations to strategic issues, Cossette and Audet (1992) describe the cognitive map of a small business owner, while Axelrod (1976) outlines the beliefs held by British cabinet members deciding on their Middle East policy. Other researchers go a step further by comparing the cognitive maps of two or more executives or groups of executives. For example, Reger and Huff (1993) contrast competitive positioning beliefs held by executives in the financial services industry, while Porac et al. (1989) show how executives in the Scottish knitwear industry share a joint map of the industry structure. However, there seems to be no research directed at finding differences and commonalities in cognitive maps across a wide variety of different executives.

- *Relationship between cognitive maps and strategic decision-making (B→C)*. A second interesting avenue of research has been directed at linking executives' cognitive maps to their actual strategic behavior. Much of the research in this area has also been emic, working with cases to show how certain beliefs held by executives lead to particular strategic decisions and organizational action. A classic is Allison's (1971) analysis of the Cuban missile crisis. Other examples include Starbuck and Hedberg (1977), who reviewed Facit Corporation's failure to respond to the threat of electronics to their mechanical calculator business, Narayanan and Fahey (1990), who studied the decline of the Admiral Television Company over a 15-year period, and Johnson (1988), who described a British retailer's inability to match industry developments. There has also been some multi-case and large sample research as well. For instance, Day and Lord (1992) mapped the key beliefs held by various executives in the machine tool industry and found that these explained some of the variance found between their organizations' strategies. Another example is the research by Thomas et al. (1993), who showed that the scanning and interpretation behavior of 156 hospital executives predicted the strategic action and performance of their organizations three years later.
- *Relationship between strategic decision-making and cognitive maps (C→B)*. While the previous category of research can be summarized as 'cognitive map use', there has also been significant work done on 'cognitive map development' (Walsh, 1995). In this area the emphasis is on the feedback loop from strategic decision-making (and organizational action and performance, see figure 1.1) to the executives' cognitive map. In other words, how do executives learn and adjust their cognitive maps over time? Again, most of the research is case based. An interesting example is a study by Barr et al. (1992) that outlines how the cognitive maps of executives at two railroad companies developed over a 25-year period, based on experience and active experimentation. Another example is an investigation by Isabella (1990) into the learning process by executives of a financial services firm, who changed their cognitive maps in response to major organizational events, such as an acquisition and a restructuring.
- *Relationship between individual attributes and cognitive maps (A→B)*. The fourth category of research is also interested in where cognitive maps come from, yet is not concerned with learning as determinant, but rather with executives' personal and

[2] In cultural anthropology *emic* (or *idiographic*) research focuses on a deep understanding of the unique characteristics of a particular culture (Hofstede, 1980; Trice and Beyer, 1993). This type of research takes a holistic view of the culture being studied and paints a rich picture of the idiosyncrasies encountered. The basic assumption is that cultures can only be understood as wholes (*Gestalten*), not in pieces. The research methodology favored for an emic approach is case work. *Etic* (or *nomothetic*) cultural research, on the other hand, searches to identify marked similarities and differences across cultures on the basis of a limited number of basic characteristics or dimensions. The intention is to uncover general classifications or laws (*Gesetze*).

functional traits. This research attempts to link the individual attributes of executives – such as age, gender, nationality, education, functional background and work experience – to the content of their cognitive maps. This type of research is by nature etic, requiring large-scale sampling. While there has been some general (non-strategic) research in this area, few studies have linked individual attributes to strategic beliefs. An interesting example is Tyler and Steensma (1998), who found a relationship between top executives' technical education and their views on potential technological alliances. In this study they also found an experiential effect on executives' cognitive maps, as past organizational success at technological alliances was linked to a positive view of their potential. Another example is a study by Hitt et al. (1997), which contrasts the strategic orientations of Korean and American executives, and finds nationality to be an important influence on the executives' cognitive maps. Similarly, Markóczy (1995) compares some strategic beliefs of Hungarian and American executives, finding nationality to be an influence on long-term versus short-term profitability horizons.

Actually, there is also a fifth category of research in this area, linking individual attributes to strategic decision-making behavior (A→C). In this work it is usually recognized that individual attributes do not directly influence behavior – individual attributes are related to executives' cognitive maps, which in turn influence decision-making behavior. However, it is assumed that easily observable individual attributes are systematically related to difficultly measurable cognitive maps, so that factors such as age, gender, nationality, education, functional background and work experience can be used as proxy measures of executives' beliefs. This approach has been particularly popular among top management team researchers (Hambrick and Mason, 1984; Finkelstein and Hambrick, 1996), who have a strong interest in the demographic composition of top management teams and the relationship between team diversity and strategic decision-making. These researchers have found correlations between individual attributes and/or top management team composition on one side, and strategic action (Bantel and Jackson, 1989; Finkelstein and Hambrick, 1990; Grimm and Smith, 1991; Hambrick et al., 1996; Michel and Hambrick, 1992) and organizational performance (Keck, 1991; Hambrick and D'Aveni, 1992; O'Reilly and Flatt, 1989; Smith et al., 1994). However, the value of this research must be questioned, as it does little to explain *how* top management team attributes have an impact on organizational action and performance, but only *that* there is some indirect correlation. An example of a more promising avenue of research in this context is the recent paper by Knight et al. (1999), that links top management team diversity to group decision-making processes and then to the development of shared top management team cognitive maps (in terms of the above coding, A→C→B).

What this broad scan of the managerial cognition literature within the field of strategic management makes clear is that the operationalization of the cognitive map construct is particularly challenging. It is one thing to acknowledge that executives hold strategically relevant beliefs that shape their perceptions and predispose them to a particular course of action, but it is quite another to actually capture these mental models empirically. Most researchers have dealt with this issue by taking a case approach, in which they were able to qualitatively describe executives' worldviews in all their richness and complexity. Some researchers working with a larger sample of executives have focused on measuring a small subset of beliefs, specific to a certain strategic issue, while ignoring the executives' overall cognitive maps. Others yet have avoided measuring executives' cognitive maps altogether, opting to use individual and group attributes as proxy measures. What is lacking is a means of measuring key strategy beliefs across all groups of executives. There is a strong need for a mapping instrument that could identify the most important strategic assumptions in executives' cognitive maps and could be used across all organizations, industries and nations.

As Porac and Thomas (2002) state in their contribution to the *Handbook of Strategy and Management*: "It is very clear that we need to identify mapping methods with a less qualitative researcher-driven orientation and with a design which can prove to be applicable and reliable across a range of cognitive studies." Such a universal *strategy perspective measurement method* would need to quantify executives' strategy beliefs along a limited number of dimensions, to make individual and cross-group comparisons simple.

It was probably such a mapping method that Hitt et al. (1997: 165) had in mind when they called for "a Hofstede-like study on strategic orientations of executives in North America, South America, Asia, Western Europe, and Eastern bloc countries". However, while they would like to see a cross-cultural measurement of strategy perspectives, this research project is directed at a more universal strategy perspective measurement instrument, that could be used across a variety of groups. It has been the ambition of this research project to develop a means for uncovering the 'strategy ideology' held by individual executives, top management teams, organizations, industries and even nations, allowing researchers to compare and contrast their beliefs. The belief on which this project is based is that such a measurement tool will greatly facilitate further research into the aforementioned areas.

1.3 THE RESEARCH QUESTION

One of the key difficulties in measuring executives' cognitive maps is the sheer complexity of these knowledge structures. Probably the most detailed methodology for mapping executives' mental models is that employed by Eden (1988, 1992). This mapping technique allows the researcher to draw causal lines between variables in a two dimensional space as a reflection of the beliefs held by an individual or a group. Such an exercise, even when directed at one specific strategic issue, can produce a map with dozens of variables and hundreds of relationships. Any attempt to capture an individual's entire cognitive map would be a mission impossible, as researchers in the field of artificial intelligence and expert systems have found out in the past.

The ambition to identify the strategic beliefs of executives across a variety of settings can therefore easily lead to an empirical nightmare. It must be accepted that it is not practical to measure and compare executives' cognitive maps in a fine-grained manner. It is imperative to find a limited number of measures that capture the executives' key strategic assumptions. Only a method based on a small set of measurement dimensions will be practical in the field.

However, this limitation is not only practical. Focusing on the key underlying assumptions influencing executives' approach to strategic issues also encourages the identification of the fundamental differences between executives' worldviews. While individuals may have divergent opinions on many different details in many different circumstances, it is often much more enlightening to acknowledge on which *principles* they disagree. In other words, it is valuable to know on which basic 'laws of strategy' executives agree and where they adhere to a different set of principles. In this way we can avoid getting caught up in the rich details of executives' strategic views and get a sharper picture of their more overarching strategic beliefs.

Where executives use general mental principles or rules to understand and respond to the strategic challenges they encounter, it can be said they have a 'strategy theory-in-use' (Argyris and Schön, 1978). For each distinct type of strategic issue, experienced executives will have a strategy theory that will help them to comprehend the situation and take appropriate action. Here, such an issue-specific mental strategy theory will be referred to as a *strategy perspective*. Stated differently, a strategy perspective is a way of looking at, and

making sense of, a particular strategic issue. A *strategic issue* is an aspect of a general strategy problem facing executives.

Hence, each executive's cognitive map holds a number of strategy perspectives, which offer a template for approaching strategic issues. This leads to the following definition of the research question:

> How can the similarities and differences in the key strategy perspectives held by business executives be made measurable?

1.4 THE RESEARCH OBJECTIVE

This research project was undertaken with three complementary constituencies in mind, namely the scientific community, the business community and the public policy community. Finding an answer to the stated research question should serve the interests of all three stakeholder groups. In the following sections the relevance of this research for each group will be discussed in further detail.

1.4.1 Scientific Relevance

As outlined above, this research project takes an etic approach to the study of strategy beliefs, searching for a number of key dimensions along which important differences in strategy perspectives can be measured. As such, this research moves beyond the still dominant emic tradition within managerial cognition research, which is focused on a fine-grained understanding of strategy beliefs within specific groups. The advantage of such a rough-grained etic approach is that the highly complex strategy belief structures of executives can be reduced to a limited set of measurable variables, making comparisons between individuals and groups much easier.

Having an instrument to map 'strategy theories-in-use' on a few key measures should contribute to our understanding of strategic thinking and strategic behavior in three related ways (see figure 1.1 for the coding employed):

- *Identifying cognitive similarities and differences (B).* First and foremost, having a general-purpose strategy perspective measurement tool should facilitate comparisons between individuals, units, organizations, industries and countries, revealing similarities and differences between these groups. At the level of individuals, the measurement dimensions should uncover different 'strategist profiles', making clear what level of cognitive heterogeneity exists within a group of executives. It might be that various 'clusters' of like-minded strategic thinkers can be identified within an organization, with large 'ideological' differences separating them. Alternatively, it could become clear that a high level of cognitive homogeneity exists within the executive team. Similarly, at the level of units, such as departments, business units, regions or hierarchical levels, strategy perspective mapping could be used to reveal differing group strategy perspectives. At the level of companies, the 'dominant strategic logic' (Prahalad and Bettis, 1986) in one company might be quite distinct compared to the 'strategy style' (Goold and Campbell, 1986) of other firms. The same could also be true at the level of industries, where strategic beliefs prevalent in one industry might be different than in other industries. Finally, at the level of countries, the measurement tool might reveal different strategy perspectives being more dominant in some nations than in others.

- *Providing independent variable for strategic decision-making research (B→C).* At all of the abovementioned levels, gaining insight into the heterogeneity of the population and being able to segment the group into a number of 'cognitive communities' (Porac et al., 1985) is valuable in itself. Yet, when considering strategy beliefs as an influencing variable in strategic decision-making models, having a quantifiable measure is essential. Some researchers have developed some situation-specific measures to capture strategy beliefs (see section 1.2), but few of these can be generalized for use in different research settings. The unattractive alternative that is all too often employed is to use personal attributes as proxy measures for strategy beliefs or to ignore strategy beliefs all together, treating executives as a homogeneous group of rational decision-makers. The strategy perspective measurement tool should provide a useful method for integrating strategy beliefs into strategic decision-making models.
- *Detailing dependent variable for strategy perspective research (A→B; C→B).* Research into the factors influencing the development of executives' strategy perspectives should also benefit from the identification of key measurement dimensions. Being able to quantify strategy perspectives (the dependent variable) makes an analysis of the variables shaping them much easier. This should facilitate research into the personal attributes that influence the development of specific strategy beliefs (*A→B)*, as well as the influence of strategic decision-making, organizational action and performance on changes in the strategy theories-in-use (*C→B)*.

1.4.2 Managerial Relevance

The second core constituency of this research project is the business community. From the outset, it has been the intention to pursue an avenue of research with direct relevance to both executives and consultants – and to report the results in a book readable to the educated businessperson.

What most businesspeople know from experience is that in strategic decision-making processes the 'facts' do not speak for themselves. Interpretation and judgment are essential, making discussions between executives (and potentially their consultants) a necessary means for forming a robust view on a specific strategic issue. Consequently, executives spend a significant amount of time exchanging analyses, assumptions, insights and ideas, to build a picture of the situation at hand. Throughout this process they must deal with the subjectivity of their own 'interpretive filter', as well as with the cognitive biases inherent in their counterparts' belief system. Having a means for efficiently uncovering one's own strategy perspectives, as well as mapping the strategy perspectives of the relevant others, is therefore valuable to both executives and consultants. Although a strategy perspective measurement instrument does not give a rich representation of a person's strategy theories-in-use, it should provide a first general insight into the person's strategic worldview.

Understanding the cognitive heterogeneity of a group can be useful to recognize and deal with two common types of problems in strategic decision-making:

- *Dysfunctional conflict within a group*. Conflict within organizations can have many sources, one being significant differences in strategy perspectives. Where various stakeholders in a decision-making process hold widely divergent strategy beliefs, the potential for conflict and polarization is large. Identifying where individuals, departments, businesses, regions, or management levels have contradictory strategy theories-in-use can be a first step to resolving differences of opinion within the group (Parker-Follett, 1924; Hampden-Turner & Trompenaars, 2000).

- *Stifling consensus within a group*. The opposite of 'paralyzing diversity' is 'ossifying uniformity'. Where all key decision-makers within an organization share the same strategy perspectives, chances are larger that they will fall prey to systematic bias – in its extreme form referred to as groupthink (Janis, 1989). Such a lack of cognitive heterogeneity can also lead to a narrower set of strategic options and less strategic innovations. Identifying the company's dominant strategic logic can be a first step to bringing in other strategic views, to challenge the existing orthodoxy within the group (Astley & Van der Ven, 1983; Johnson, 1988).

More in general, having an instrument to map strategy perspectives should help executives and consultants to structure the strategic decision-making situation in a more favorable way. Two design variables are of particular importance:

- *Process design*. Having knowledge of the diversity of strategy perspectives within the group can be used to engineer a fruitful strategy dialogue between the participants. The level of cognitive heterogeneity will determine where conflicts can be expected and 'bridging' activities will be needed, or alternatively, where alternative perspectives could add value to the process.
- *Group design*. It can also be productive to establish whether a group is too heterogeneous or homogeneous to function properly, and adjust the mix of participants accordingly. This might lead to unexpected insiders being brought into the process, or a clearly defined role for external consultants.

Of course, this type of strategy process and group design can also be applied to strategic decision-making involving two or more companies. Knowing the level of 'strategy culture fit' with a potential partner organization (or acquisition candidate) could be used to design joint strategy decision-making processes and determine group composition.

1.4.3 Societal Relevance

The third constituency that this research project is intended to serve is the public policy community. Given the central role of business organizations in our society, a large part of public policy is directed at influencing the behavior of decision-makers within companies. Government bodies and agencies try to regulate, stimulate, entice or coerce executives to exhibit behavior in line with the political objectives of the current administration. All of this influencing activity is based on assumptions about the way companies determine their behavior. In particular, public policy makers have preconceptions about the manner by which executives develop their strategies. Yet, without the ability to recognize the diversity of strategy perspectives within the business community, it is very tempting to treat executives and companies as homogeneous groups of rational decision-makers and to develop public policy accordingly.

To be able to design rules, regulations and programs that do have the intended impact on companies' strategic behavior, public policy makers require a detailed understanding of how executives actually engage in strategic decision-making, and where opportunities for influencing are strongest. It must be recognized that companies with different strategic beliefs will respond differently to influencing activities and that policy initiatives should be designed to accommodate this diversity.

The strategy perspective measurement instrument is too general in nature to help in the design of specific public policy initiatives – for such purposes it is necessary to measure the issue-specific beliefs held by executives. Still, the strategy perspective measurement

instrument should serve the broader purpose of sensitizing public policy makers to the variety of worldviews common within the business community. And as a first way of segmenting companies into cognitive communities, this tool should provide some overarching distinctions useful for understanding the diversity of strategic behaviors that public policy-makers witness.

1.5 THE RESEARCH PROCESS

Understanding the differences in strategy views of executives has been a research theme that I have pursued, together with my colleague Bob de Wit, for approximately the last ten years. This work has resulted in a number of books and articles, the most recent of which (*Strategy Synthesis*, 1999, 2005) has formed the springboard for this research project. Much of the conceptual framework to be discussed in chapters 3 through 12 was developed together with Bob de Wit in *Strategy Synthesis* and has been liberally used to provide building blocks for this book. It has not been my intention to recycle 'old material', but rather to extend a promising conceptual framework into an empirically useful measurement tool, which does require the revisiting of a number of elements already discussed in our previous work. However, I am confident that readers already familiar with *Strategy Synthesis* will still appreciate the reacquaintance with these concepts and arguments.[3]

The approach taken in this research project has been to take the ten dimensions, along which strategy perspectives can differ, as identified in *Strategy Synthesis*, and to expand them into a full-fledged conceptual framework suitable for operationalization. This conceptual framework, based on an extensive study of the strategic management literature, was subsequently used to construct a first questionnaire-type strategy perspective measurement instrument. After testing and refinement, a final version of the measurement instrument was derived.

In the general design of this research project two important choices have been made that determine both the benefits and the limitations of the final results. The chosen research approach is:

- *Etic vs. emic*. As described earlier, in cultural anthropology etic research is directed at making comparisons across a large number of individuals or groups on a limited number of dimensions, to identify similarities and differences in the beliefs, norms and values held within the total population. The objective is to derive classification schemes (typologies) or to establish general causal relationships between a number of variables within the population (models). As such research usually involves studying large populations, quantitative methods are the tools of preference. The benefit of etic research is that it reduces the complexity of reality, allowing for underlying structures to be recognized in the form of typologies and models. General 'laws' can be uncovered that 'govern' the functioning of the subject under study. Emic research, on the other hand, is not interested in generalizations about populations, but in rich understandings of separate entities. By focusing on a limited number of individuals or groups, they can be studied on a large number of dimensions, in all their complexity. As the objective is to discover the full interplay of multiple variables, such single or multiple case research usually leans heavily on qualitative methods. The benefit of emic research is the opposite of etic

[3] As not to exhaust the reader with constant self-references, chapters 3-12 will not explicitly refer to my previous work with De Wit. In general, the overall conceptual framework as outlined in table 2.4 has been taken from *Strategy Synthesis* (1999, 2005).

research – by not reducing complexity, but rather by recognizing it, a much more detailed picture of reality emerges, allowing for the understanding of complicated dynamics within the subject under study. While it is a recurrent theme, both in the field of cultural studies, as in strategic management, to debate which research approach is more valuable, it seems clear that the two approaches offer complementary insights and therefore should both be supported (Frankfort-Nachmias and Nachmias, 1996; Lee, 1999). In this research project, however, a clear choice has been made for an etic approach, precisely because so much of the research so far has been emic in nature and a general framework for measuring and classifying strategy perspectives is absent. The inherent limitation in this choice is that whichever dimensions are used to map strategy perspectives, they will never offer a rich representation of the actual strategy beliefs held by any individual – as a Myers-Biggs score does not give a detailed understanding of a person's true personality or a Hofstede score does not bring detailed insight into the intricacies of a nation's culture.

- *Deductive vs. inductive*. A second important choice characterizing the research project is that a deductive, or theory-driven, approach has been employed. To arrive at the dimensions along which the strategy perspectives could be measured, the strategic management literature was used to construct a conceptual framework. On the basis of this framework the measurement tool was conceived. The benefit of this deductive approach is that the researcher can be more goal-oriented, knowing what to ask and why. As the researcher knows what (s)he is looking for, questions can be sharply formulated and comprehensive. An inductive approach, on the other hand, would have started in the field, detailing the actual strategic beliefs of a small sample group. Using the strategy beliefs unearthed, a conceptual framework could be constructed that could be tested on a larger scale. The benefit of such an inductive, empirically-driven, approach is that the researcher is less blinded by what (s)he wants to see, letting 'the data speak for themselves'. As the researcher has fewer preconceptions about what to find, chances are smaller that a framework will be imposed upon reality, while the chances of a framework emerging from the data will be greater. Yet, while recognizing the advantages of strongly inductive approaches such as grounded theory (Glaser and Strauss, 1967), in this research project a largely deductive approach will be employed. The reason is that the emphasis here is not on the exploration of new phenomena, but on the testing of assumptions brought forward in previous research. The inherent limitation of this choice is that the key measurement dimensions derived from the literature may not coincide with the empirical practice, either by misrepresenting or ignoring important dimensions.

1.6 THE RESEARCH REPORT

The research process just described has resulted in this book, which consists of 16 chapters, divided into three main parts (see figure 1.2):

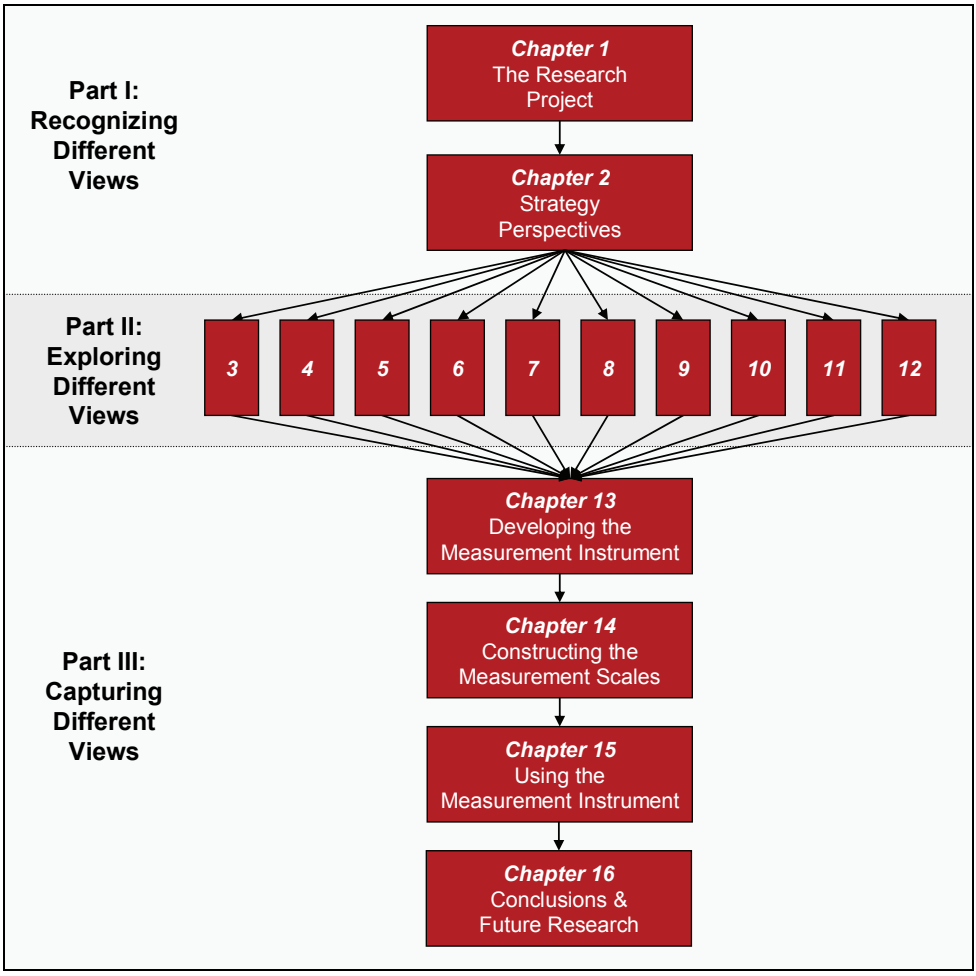
I. *Recognizing Different Views: Studying Strategy Perspectives*. After chapter 1, this part of the book continues to set the stage for the research project. The next step is set in chapter 2, where the key concepts employed are defined. Subsequently, a typology of strategy perspectives is presented that forms the main structure of the measurement instrument.

II. *Exploring Different Views: Identifying Strategy Perspectives*. In part II the ten dimensions of the strategy perspective typology are worked out into more detail, each in a separate

chapter. Each chapter is concluded with a structured overview of how that dimension can be operationalized in a measurement instrument.

III. *Capturing Different Views: Measuring Strategy Perspectives*. In part III the construction of the measurement tool is explained and it is evaluated on the basis of reliability and validity. Furthermore, some exploratory research is conducted in to the factors that might have an influence on the strategy perspective of executives. This part is concluded with a review of the results and an analysis of promising research directions.

FIGURE 1.2
Structure of the book



As it is the stated ambition of this book to appeal to academics, business people and public policy makers, an attempt has been made to establish a presentation style devoid of overly cumbersome scientific jargon and formulations, while doing justice to useful scientific terminology and conventions. It is up to the reader to determine whether this intention to be

relevant to multiple audiences has been successful, or whether this book is ‘stuck in the middle’.

Chapter 2

STRATEGY PERSPECTIVES

2.1 INTRODUCTION

The intention of this research study is to develop a means for measuring the strategy perspectives of executives. In the previous chapter a number of working definitions were introduced to clarify key concepts. A *perspective* was defined as a way of looking and a *strategy perspective* as a way of looking at a strategic issue. A *strategic issue* was defined as an aspect of the general strategy problem facing executives. These definitions are rather broad and require further refinement before they can be used for designing a measurement instrument. Therefore, this chapter will start (section 2.2) with a clarification of the concepts of strategic problem, strategic issue and strategy perspective.

The objective of this chapter is to arrive at a *typology of strategy perspectives* that can form the basic structure of the measurement instrument. To achieve this goal, the first step will be to determine the principles on which a typology of strategy perspectives should be based (section 2.3.). The second step will be to disaggregate the concept of a strategy problem into a logically consistent category system of ten strategic issues. This *typology of strategic issues* will be presented in section 2.4. The third and last step will be to use the identified strategic issues to define twenty archetypical strategy perspectives that can be used for developing the measurement instrument (section 2.5).

2.2 DEFINING STRATEGIC ISSUE AND STRATEGY PERSPECTIVE

At the basis of this research study are two key concepts – strategic issue and strategy perspective. This section starts by defining the two concepts separately, after which they be linked to one another in an integrative framework.

2.2.1 The Concept of Strategic Issue

According to Ackoff (1980) the first challenge for executives who are intent on determining a strategic course of action is to *define the mess* in which the organization finds itself. A mess is a complex and confusing situation, which at the surface seems disorderly. For the executive to be able to formulate a strategy for the organization, it is necessary to unravel the various aspects of the mess and to find the underlying structure. To achieve this, executives must analytically disentangle the different strands of a messy situation, identify the key issues at

the heart of the matter, and understand how the key issues are related to one another. Ackoff's conclusion is that defining a mess requires both *analysis*, to see the parts, and *synthesis* to recognize relationships between the parts.

Similarly, Mason and Mitroff (1981) speak of the need to understand the *wicked problems* faced by executives. Reaching back to Rittel and Webber (1973) they argue that strategy making rarely focuses on *tame problems* – clear, common problems with a limited set of measurable solutions. More often executives must deal with outright wicked problems, that are essentially unique, difficult to define, have no exhaustive list of possible solutions and are never definitely solved. In line with Ackoff's reasoning, Mason and Mitroff argue that solving wicked problems requires both *disaggregating* the whole into its component parts, as well as *integrating* the various elements into a holistic understanding.

What Ackoff calls a mess, and Mason and Mitroff call a wicked problem, shall here be referred to as a strategic problem. Stated in terms of a formal definition:

> A ***strategic problem*** is a complex, multi-facetted real-life situation confronting an organization that requires resolution if the organizational objectives are to be met.

This definition emphasizes four important characteristics of strategic problems:

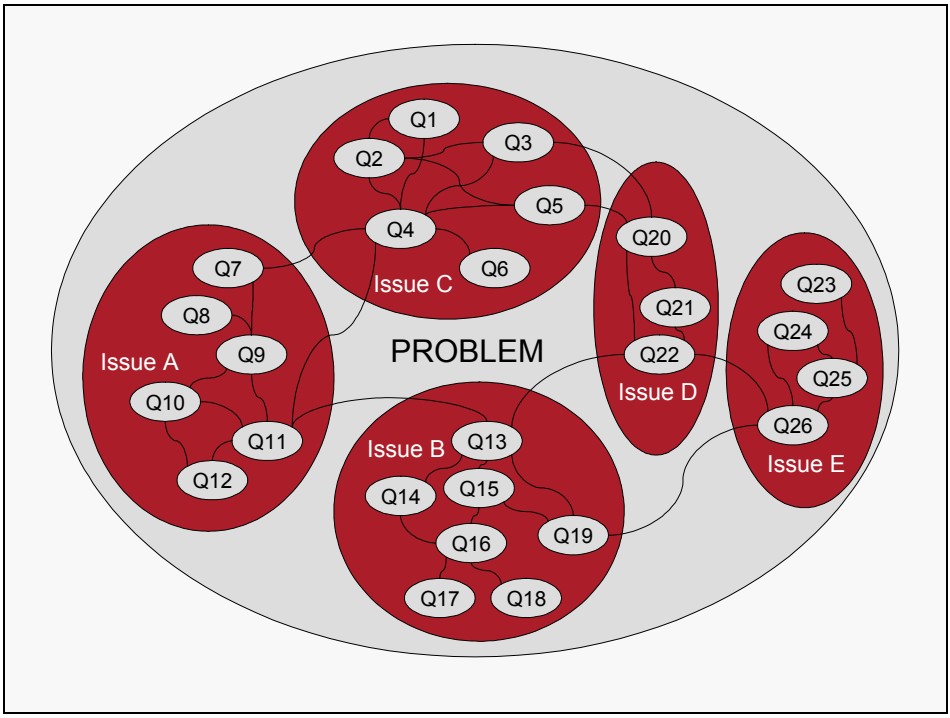
- *'Complex, multi-facetted'*. Strategic problems are bundles of interlaced issues, linked together in complicated ways.
- *'Real-life situations'*. Strategic problems are not theoretical constructs (e.g. a transaction cost economics problems or a dynamic capabilities problems), but actual challenges encountered by an organization.
- *'Confronting an organization'*. Strategic problems are not limited to individuals or departments, but concern the entire organization.
- *'Requires resolution if the organizational objectives are to be met'*. Whether a situation is a strategic problem depends on the goals the organization is striving to achieve.

Both Mason and Mitroff, and Ackoff, argue that due to the complex, multi-facetted nature of strategic problems, they cannot be effectively addressed without dissection into a number of more manageable sub-problems. In other words, to be made understandable and solvable, strategic problems must be broken down into a number of component parts, which shall be referred to as *strategic issues*. Stated in terms of a formal definition:

> A ***strategic issue*** is an analytically distinct sub-system of a strategic problem, pertaining to a specific topic.

A strategic issue is in itself decomposable into component questions and sub-questions (Kramer and De Smit, 1985). Viewed in this way, a strategic issue is a highly inter-connected cluster of strategic questions, which must be answered in a closely coordinated way. While in a strategic problem all questions are interwoven, some clusters of questions are more closely linked together than to other questions (see figure 2.1).

FIGURE 2.1
Strategic problems, strategic issues and strategic questions



2.2.2 The Concept of Strategy Perspective

Simply put, a *perspective* is a way of looking. Taking a particular perspective means viewing an object, topic or event from a certain angle. By extension, a *strategy perspective* can be defined as a way of looking at a strategic issue. A strategy perspective is a point of view on how a specific strategic issue can be understood and dealt with.

To further clarify the concept of strategy perspective, it is best to first explore the closely related notions of *ideology* and *paradigm*. Both ideology and paradigm refer to a general set of ideas that help people to make their world comprehensible and meaningful, while providing direction for their actions. The term ideology is particularly well known in the field of political science, where it is used to describe such broad 'idea systems' as liberalism, socialism and communism, as well as more local variations such as Gaullism, Zionism and Apartheid. In cultural anthropology, the concept of ideology is also common, referring to the web of socially constructed meanings and preferences at the heart of a culture (Trice and Beyer, 1993). From these roots the term has found its way into the strategic management literature (e.g. Ruigrok and Van Tulder, 1993; Wartick and Wood, 1999), although the negative connotation of ideology as 'fanatical political beliefs' has probably limited the term's more wide spread adoption, in favor of the term paradigm.

Introduced by science historian Kuhn (1970), paradigm was originally employed to describe a scientific ideology – "a constellation of concepts, values, perceptions and practices" shared by a community of scholars. Since then, the term has spread to other areas, including strategic management (e.g. Porter, 1990; Prahalad and Hamel, 1994). Besides

ideology and paradigm, sometimes the German term *Weltanschauung* – literally, worldview – is used to communicate the same meaning. Whichever term is adopted, the intention is to describe an overarching system of ideas for understanding and dealing with the world.

Trice and Beyer (1993; 33) give an insightful definition of ideologies as "shared, interrelated sets of beliefs about how things work; values that indicate what's worth having or doing; and norms that tell people how they should behave". What this definition makes clear is that an ideology or paradigm can be subdivided into three strongly related elements:

- *Beliefs*. To be able to make sense out of the barrage of stimuli reaching the brain, humans construct cognitive maps that explain how the world works. These cognitive maps are mental representations of how phenomena in the environment are linked through cause and effect relationships. As 'mental models of reality', they are the beliefs that offer understanding about things and events – a type of implicit theory about the functioning of the world around us. In the management literature the set of beliefs central to a person's worldview is variably known as *cognitive map* (McCaskey, 1982; Weick & Bougnon, 1986), *mental model* (Barr, Stimpert and Huff, 1992; Knight et al., 1999; Mintzberg, 1973), *knowledge structure* (Lyles and Schwenk; Walsh, 1995), *construed reality* (Finkelstein and Hambrick, 1996), *cognitive schemata* (Fiske and Taylor, 1984; Ireland et al., 1987; Sims and Gioia, 1986) and *belief system* (e.g. Noorderhaven, 1995; Smircich and Stubbart, 1985).
- *Values*. While a belief system is a template for explaining and interpreting events, values determine the meaning of events for individuals or groups. Values determine what is seen as important (Hofstede, 1980; Hampden-Turner and Trompenaars, 1993). A value is a deeply held preference, determining what is viewed as good, just or beautiful. As such, the values that a person holds will influence what is seen and how it is interpreted. Values direct attention and determine which developments are seen as a priority, while others are viewed as insignificant. Values also act as the principles for ordering consequences and alternatives according to their desirability (Hambrick and Mason, 1984).
- *Norms*. A paradigm not only provides descriptively oriented schemata for comprehending reality, but also prescriptively oriented sets of norms for responding to events. These norms outline the type of behavior that is seen as appropriate and/or acceptable under particular circumstances. Norms can be broadly formulated rules and regulations delimiting legitimate behavior, but can also be behavioral templates prescribing the best way to deal with certain problems.

While a useful analytical distinction, in practice beliefs, values and norms are blended together into a holistic way of perceiving and responding to the world. In a paradigm, beliefs, values and norms support each other to uphold a consistent logic for dealing with reality.

In the context of this research project, a number of important characteristics of paradigms need to be reviewed, before the step can be made of relating the concept of paradigm to that of strategy perspective. It must be noted that paradigms have the following characteristics:

- *Directive*. People's set of beliefs, values and norms shapes both their understanding and their behavior. The process by which people's worldview colors what they see can be referred to as *perceptual filtering* or *screening* (England, 1967; Starbuck and Milliken, 1988). A perceptual filter influences both what is noticed and how it should be understood. The process by which people's worldview directs their actions can be referred to as *behavior channeling*. Potential responses can be drawn from an existing

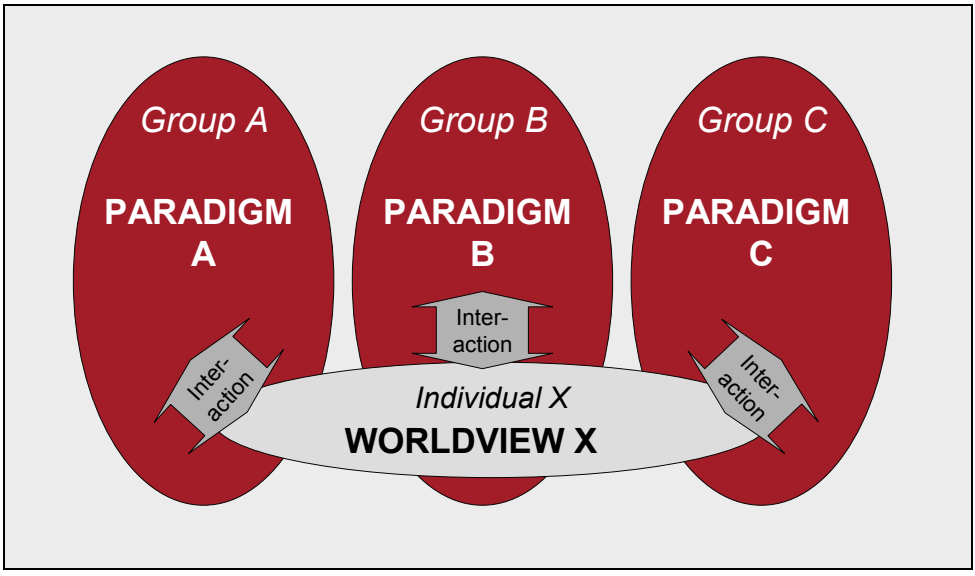
repertoire (also referred to as *scripts* or *recipes*) or new responses can be generated that fit within normative boundaries.

- *Socially constructed*. People's view of reality is not developed in relative isolation, but quite oppositely, in interaction with one another (McCaskey, 1982; Smircich and Stubbart, 1985). People tend to construct a shared understanding of the world by interacting with each other within a group over an extended period of time. By exchanging interpretations of what they see, they enact a shared reality (Daft & Weick, 1984; Walsh, 1995). When new members join a group they undergo a process of *socialization*, in which the collective beliefs, values and norms are passed on. To cultural anthropologists this is the very essence of culture – "culture represents the system of socially constructed meanings and preferences a group develops as it collectively negotiates environmental forces and the complexities of internal integration" (Geletkanycz, 1997).
- *Overlapping*. As individuals can belong to different groups, they can be influenced by different paradigms simultaneously. As members of a national culture, their worldview will to a certain extent be influenced by the beliefs, values and norms dominant within the nation. As employees of a company, their worldview will also be affected by the beliefs, values and norms common within the firm and the industry. In the same manner, people can be impacted by the professional community to which they belong, their religious affiliation, their political party and any other groups in which they interact with others (Hambrick et al., 1993; Sutcliffe and Huber, 1998). Due to the *mutually inclusive* nature of group membership, an individual's beliefs, values and norms will be a complex combination of elements taken from different group-level paradigms. While the paradigms on which an individual draws can be complementary, or overlapping yet consistent, it is quite possible that inconsistencies arise (Schein, 1985; Trice and Beyer, 1993).
- *Largely tacit*. As paradigms develop over time through interaction and are passed on through socialization, they remain largely tacit. Generally, people are unaware of the assumptions at the basis of their thinking. The beliefs, values and norms of a group are literally 'common sense' – sensible to a common group of people. Most of the learning done in a group is not explicit, but implicit (Nonaka, 1991; Schwenk, 1984). However, where members of different groups come into conflict with one another, or where an individual needs to deal with the inconsistencies brought on by multiple group memberships, paradigms can become more *articulated*. Different behaviors, based on different paradigms, will often lead to the identification and codification of beliefs, values and norms, either to protect them or to engage in debate with people with other views. As paradigms become more articulated, they also become more mobile, making it possible to transfer ideas to people without direct interaction.
- *Stable over time*. While people have the impression that they are constantly learning, they are largely learning within the bounds of a paradigm. Once a coherent frame of reference is in place with which to interpret the world, it is extremely difficult to displace. This stability over time is due to a number of factors. First, as a paradigm is largely tacit, it is difficult to challenge. It is like a pair of glasses – looking through them shapes your perceptions, but you cannot see that you have them on. Second, where signals that contradict the paradigm are received, the mind generally resists them. This *cognitive rigidity* is due to humans' need to keep a grip on reality (Schwenk, 1984). Allowing one's beliefs, values and norms to be challenged on a continual basis would be exhausting and disorienting. As McCaskey (1982) puts it, the mind "strives mightily to bring order,

simplicity, consistency, and stability to the world it encounters," and is therefore reluctant to welcome the ambiguity presented by contradicting data. Third, as a paradigm is socially constructed, individuals have great difficulties in developing ideas that sharply differ from the group. Not only do they have no 'intellectual sounding board' for teasing out new ideas, but their deviation might also have adverse social and political ramifications within the group (Powell and DiMaggio, 1983). Taken together, these arguments make clear why the old proverb is: 'old ideas never change; they eventually die out' (Kuhn, 1970).

As an individual's beliefs, values and norms will be a mix of elements taken from various groups, it is important to make the 'level of analysis' distinction clear in the terminology as well. While the literature offers the distinction between individual and team mental models (Klimoski and Mohammed, 1994) and individual and collective cognitive maps (Axelrod, 1976), these terms have a focus on beliefs, while leaving out values and norms. Therefore, I opt to refer to the group level beliefs, values and norms as *paradigms*, while referring to an individual's overall beliefs, values and norms as *worldview* (see figure 2.2).

FIGURE 2.2
Paradigms and Worldview



In practice, paradigms, like theories, come in many shapes and sizes – some closely related to the group in which they were developed, while others, such as political ideologies and management philosophies, have spread beyond an interacting group. Some paradigms have a restricted area of application, while others shape views on a wide variety of topics. All have in common that they offer an overarching logic for interpreting events and a framework for action.

While the concept of paradigm is easily 'captured' in words, identifying actual paradigms 'in the wild' is a totally different matter. As paradigms are largely implicit and socially constructed, researching paradigms is wrought with methodological difficulties, which has bedeviled scientists for decades (Walsh, 1995). Some of these methodological

questions will be revisited in chapter 13, but here it is sufficient to note that paradigms are hard to nail down in practice.

When it comes to strategic problems, as defined in section 2.2.1, there are many paradigms that suggest how they should be understood and reacted to. However, it is not the intention of this research project to study broad ranging strategic problems and equally broad ranging paradigms. The focus of this study is to see whether there is a variety of views on how to understand and react to more specific strategic issues. Such a view on how to comprehend and deal with a particular strategic issue, I refer to as a strategy perspective.

According to this definition, a strategy perspective is much narrower than a paradigm. While a paradigm gives an *overarching view* on dealing with strategic problems, a strategy perspective is a *point of view*, focused on dealing with one strategic issue. Both are idea systems, but a strategy perspective has a more limited scope, confined to understanding and responding to a particular cluster of strategic questions. In other words, a strategy perspective can be characterized as a 'mini-paradigm' or, better yet, as a 'strategic issue specific set of beliefs, values and norms'. Stated in terms of a formal definition:

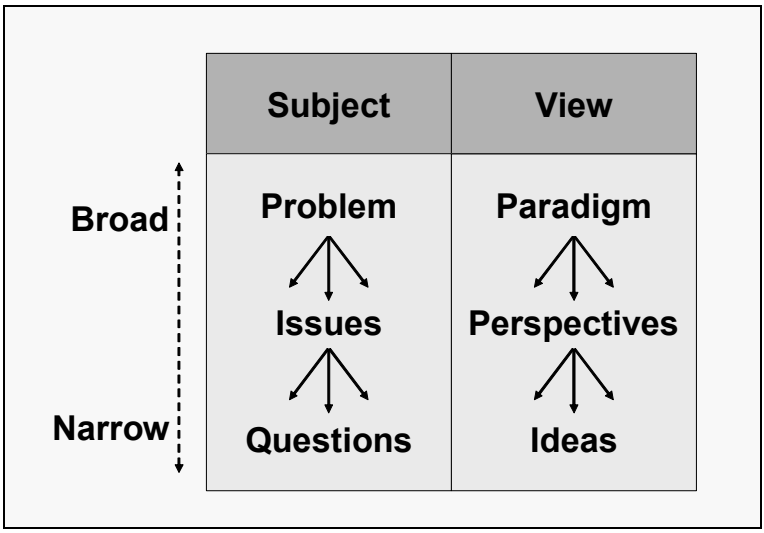
> A ***strategy perspective*** is a coherent set of beliefs, values and norms, offering an internally consistent view for explaining and reacting to all aspects of a specific strategic issue.

While a strategy perspective is narrower than a paradigm, it is broader than a single *strategy idea* – it is a system of ideas. A strategy idea provides understanding and insight into an individual strategic question or sub-question, but a strategy perspective offers a logic that transcends the individual strategic question. A strategy perspective offers a frame of reference for comprehending and responding to a cluster of related strategy questions – it is an internally-consistent view for explaining and reacting to all aspects of a specific strategic issue. This 'hierarchical' relationship between paradigm, perspective and idea is illustrated in figure 2.3. As can be seen in this figure, both strategic issue and strategy perspective are 'mid-range' concepts, neither at the highest or the lowest levels of aggregation.

As executives need to respond to many different strategy issues, they will have an equally large number of strategy perspectives as part of their worldview. It is my assumption that these strategy perspectives will share many of the characteristics of paradigms – they will steer perceptions and channel behavior, will be socially constructed and largely implicit, and will be fairly stable over time. As suggested in chapter one, knowing people's strategy perspectives will make it easier to predict the direction of the strategic choices they will make, while simultaneously making it easier to challenge their strategic choices, by questioning the very beliefs, values and norms on which their preferences rest.

The concept of strategy perspective as advanced here has not yet been developed within the strategic management literature, although there have been initial steps towards this goal. Much of the work done in the area of 'the strategist's view' so far has studied firm or top management team paradigms in general (e.g. Hambrick and Mason, 1984; Prahalad and Bettis, 1986). However, recently there have been a number of publications dealing with the issue-specific logics employed by individual executives. For instance, Tyler and Steensma (1998) measure the *cognitive orientations* (i.e. strategy perspectives) used by executives when assessing technological alliances, while Hitt et al. (1997) report on the differences in Korean and U.S. executives' *strategic orientations* (i.e. strategy perspectives) with regard to a number of key strategic questions. Unfortunately, none of these authors define their key concept to any depth.

FIGURE 2.3
Positioning the Concept of *Strategy Perspective*



2.2.3 Unraveling Strategic Problems

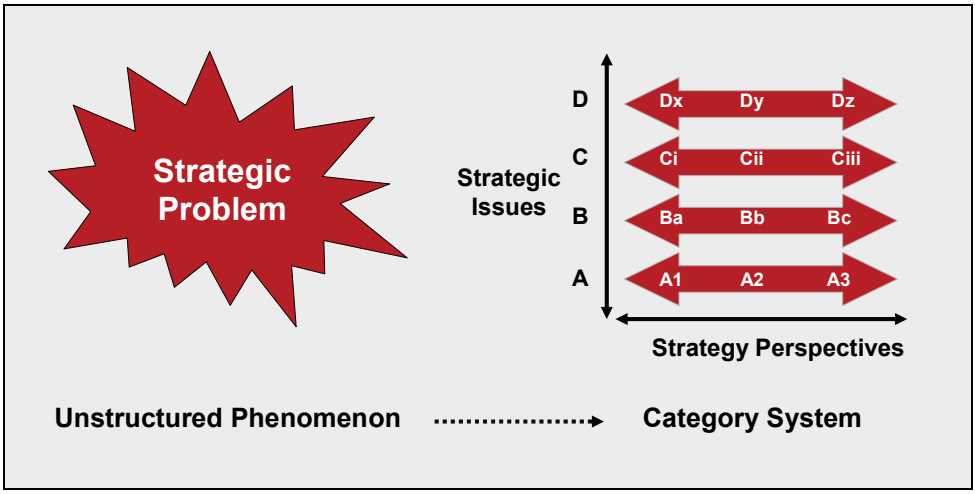
As it is the intention of this study to develop a means for mapping 'the strategists' view', measures must be created to track executives' strategy perspectives on key strategic issues. This means that it is necessary to take two steps. First, it is necessary to unravel strategic problems into their constituent parts – strategic issues. Second, for each strategic issue the variety of possible strategy perspectives should be identified. In other words, wicked strategic problems should be structured according to figure 2.4.

Because the measurement instrument envisioned should be universally applicable, the 'strategic problem' to be unraveled into strategic issues cannot be specific, but must be generic. In the following sections a typology of strategic issues will be proposed as the general framework for the measurement instrument. Subsequently, a number of principles will be introduced, which will be used to identify the various strategy perspectives in the following ten chapters. An overview of the key strategy perspectives on each of the generic strategy issues will be given at the end of this chapter. This will be the *strategy perspective typology* on which the measurement instrument will be based.

2.3 TOWARDS CREATING A TYPOLOGY

Before designing a strategy perspective typology, it is important to acknowledge existing typologies in the field of strategic management and to assess whether they offer a basis for the task at hand. This evaluation of the typologies in the strategy literature will be given in section 2.3.1. Subsequently, in section 2.3.2 a number of typological principles will be identified to guide the categorization process further on in the chapter.

FIGURE 2.4
Structure of Strategy Perspective Typology



2.3.1 Typological Antecedents

As in any field of study, strategic management is awash with typologies. A typology is a framework for dividing phenomena into a logically consistent category system. Since in research there is always a grave danger of reinventing the wheel, it is important to review the most important typologies, to see whether they offer input for creating a strategy perspective typology.

In table 2.1 a meta-typology is presented, based on the categories of the conceptual framework presented in chapter 1. In this meta-typology, a number of classic strategic management typologies are given as examples. It should be noted that most of the typologies current in the literature are of a contractive nature and therefore have not been included in this overview. A *contractive typology* is a categorization intended to isolate the specific phenomenon under review and to set it apart from others (Frankfort-Nachmias and Nachmias, 1996). This kind of typology is limited in scope and hence of limited use for this research project. A *comprehensive typology*, on the other hand, is more ambitious, offering a broad framework for distinguishing all phenomena in a certain area. For the comprehensive typology being devised here, such comprehensive typologies might be informative and therefore will be evaluated. Of particular interest are the two middle categories, strategic decision-making and strategic views, as we might expect to find useful leads for respectively a strategic issue typology and a strategy perspective typology.

When looking at comprehensive typologies of strategic decision-making, the question is whether these typologies can be of use for the construction of the strategic issue typology at the base of the strategy perspectives measurement instrument. To answer this question, a further distinction must first be made between those typologies focusing on the steps or phases in the strategic decision-making process, and those dealing with the different issues or topics needing to be decided upon:

- *Strategic decision-making steps typologies*. Typologies based on steps break the entire strategic decision-making process down into a number of less complex sequential phases (i.e. recognition, analysis, formulation and implementation). In each phase a number of

distinct activities are generally identified that need to be carried out by executives, before the desired organizational performance can be realized. These typologies are especially popular in 'strategy manuals' and strategy textbooks, as they structure complexity chronologically for executives, helping them to move 'one step at a time'. However, while in wide spread use, these typologies are quite instrumental, focusing on the 'operational' activities of the strategist, as opposed to the strategic issues that strategists must decide upon. Therefore, they do not offer a basis for the strategic issue typology being pursued here.

- *Strategic decision-making issues typologies*. Typologies based on issues break strategic decision-making down into a number of less complex topics, by splitting strategic problems into a number of component parts. There have been just a few comprehensive strategic issue typologies proposed in the research literature (Pettigrew and Whipp, 1991; Pettigrew, 1992; Ketchen et al., 1996), although textbooks also occasionally present an implicit classification of strategic issues (e.g. Mintzberg and Quinn, 1991; Hill and Jones, 2000). Obviously, these are exactly the typologies that will be of value when devising a comprehensive typology of strategic issues in section 2.4.

TABLE 2.1
A Typology of Strategic Management Typologies

CATEGORY	EXAMPLES
Typologies of Strategy Contexts:	
▪ Internal contexts (organization)	Mintzberg, 1975; Miller, 1991
▪ External contexts (environment)	Porter, 1980; Emery & Trist, 1965
Typologies of Strategic Views	
▪ Perspectives / paradigms (executives)	Hamel and Prahalad, 1994; Clarke and Clegg, 1998
▪ Schools of thought (researchers)	Mintzberg, 1990; Whittington, 1993
Typologies of Strategic Decision-Making	
▪ Decision-making steps (phase)	Ansoff & McDonnell, 1990; Christensen et al, 1987
▪ Decision-making issues (topic)	Pettigrew, 1992; Ketchen et al, 1996
Typologies of Strategic Behaviors	
▪ Strategy process (change)	Chaffee, 1985; Stebel, 1992
▪ Strategy content (choices)	Hedley, 1977; Miles & Snow, 1978

When looking at comprehensive typologies of strategic views as inputs for a typology of strategy perspectives, it can be noted that these can also be separated into two distinct categories – those focusing on the differing strategic views of executives and those dealing with the differing strategic views of researchers:

- *Strategy perspectives/paradigm typologies*. To my knowledge there are no typologies of strategy perspectives covering two or more different strategic issues. However, recently there has been a strong interest in identifying different types of management paradigms (Bennis et al., 1994; Clarke and Clegg, 1998; Collins and Porras, 1996; Hamel and Prahalad, 1994). Yet, most of these frameworks do not move beyond a distinction between the 'old' straw man and the 'new' utopia (e.g. Cannon, 1996; Hall, 1993; Hames, 1994; Maynard and Mehrtens, 1996; Tapscott and Caston, 1993). While of general

interest to the task of drawing up a strategy perspective typology, these paradigm typologies are too broad (and too poorly defined) to be of direct use.

- *Schools of thought typologies*. A different category of contributions to the literature has been the typologies distinguishing different schools of thought within the strategic management research community. These typologies focus on the variety of views among *researchers*, not the variety of views among *executives*. In these typologies strategy researchers are divided into streams of like-minded thinkers, either on the basis of their core scientific discipline, or on the basis of shared theoretical underpinnings. The most influential contribution is by Mintzberg (1990, 1998). His ten schools of thought have been summarized in table 2.2 to emphasize that they have little to do with strategy perspectives – knowing the assumptions on which theorists base their work says nothing about the assumptions executives employ when approaching a strategic issue. Therefore, schools of thought typologies are only of indirect value to this research project. Unfortunately, strategy perspectives and schools of thought in strategy are occasionally seen as similar concepts, requiring extra emphasis on their radically different typological bases.

TABLE 2.2
Mintzberg's Ten Schools of Thought in Strategic Management
(adapted from Mintzberg, 1998)

SCHOOL OF THOUGHT	'THOUGHT'	'SCHOOL'
Design School	Strategies are formed as a result of internal and external evaluation *(Conception)*	Economics
Planning School	Strategies are formed as a result of formal planning models *(Formality)*	Economics
Positioning School	Strategies are formed as a result of strategic positioning *(Analysis)*	(Industrial) Economics
Entrepreneurial School	Strategies are formed as a result of a single leader *(Vision)*	Psychology, Sociology
Cognitive School	Strategies are formed as a result of the cognitive mind *(Mentality)*	Psychology
Learning School	Strategies are formed as a result of experience *(Emergence)*	Psychology
Power School	Strategies are formed as a result of politics *(Negotiation)*	Political Science, Sociology
Cultural School	Strategies are formed as a result of the organization's mind *(Collectivity)*	Anthropology
Environmental School	Strategies are formed as a result of the challenging setting *(Reactivity)*	Biology
Configuration School	Strategies are formed as a result of a complex interplay of factors *(Transformation)*	Many

From a methodological point of view, it is interesting to note that the literature on schools of thought in strategy is not a particularly strong benchmark to use for this study. For instance, in his work Mintzberg has not made the logic underlying his categorization of schools of thought explicit, which makes it seem a rather haphazard checklist, instead of a comprehensive typology. The categorization criteria seem to be partially historical (assumed development phases of the strategic management field), partially disciplinary (distinguishing contributions from different mono-disciplines), and partially opportunistic (unless the creation of separate category for himself was intended tongue-in-cheek). In follow-up seminars and publications (e.g. Volberda and Elfring, 2001) new 'species' of schools have been reported, but the typological principles and criteria underlying these efforts have at best been weak. The conclusion must be that any typology is only as sound as the foundations on which it is based.

2.3.2 Typological Principles

Every typology is a reflection of the principles and categorization criteria employed to construct it. While the categorization criteria used to distinguish the various strategic issues and strategy perspectives will be discussed in the following sections, it is important to make clear what the underlying principles should be when designing the typology.

The basic assumption is that there is not one best kind of typology, but that a typology should be fit for purpose. In this case, the purpose is to develop a strategy perspectives measurement instrument. This has lead to the adoption of the following four principles:

- *Validity*. First, and foremost, the typology must be valid. In practice, this means that the typology must be consistent with the established theory in the field of strategic management (*construct validity*) and that it must be unambiguous in its definitions and the categorization criteria employed (*content validity*).
- *Simplicity*. As the strategy perspective typology will form the basis of the measurement instrument, it cannot be too extensive and complex. To remain practical as a measurement tool, the measurement instrument needs to be relatively compact and comprehensible, placing a premium on a typology that is short (*limited number of categories*) and easy to use (*clearly distinguishable categories*).
- *Relevance*. Since the measurement instrument is intended to measure the views with the highest impact on the executive's strategic decision making, only the most influential strategy perspectives need to be included in the typology. Focusing on the important has a higher priority than being complete.
- *Difference*. Finally, the typology should highlight the major differences in views, while paying less attention to issues on which more consensus exists. The focus should be on contradictory assumptions and conflicting norms. In other words, only the aspects with a high discriminatory value should be considered.

These four principles will be used to guide the categorization in the following section and will return in section 2.4.6 as evaluation criteria to check whether the strategic issues typology presented meets the stated ambitions.

2.4 A TYPOLOGY OF STRATEGIC ISSUES

The backbone of the strategy perspectives measurement instrument consists of three broad categories – strategy process, strategy content and strategy context – which will be introduced in section 2.4.1, after which each category will be further sub-divided in the following three subsections. In section 2.4.5 a final strategic issue – organizational purpose – will be described, after which the entire typology will be summarized and evaluated in section 2.4.6.

2.4.1 Strategy: Process, Content and Context

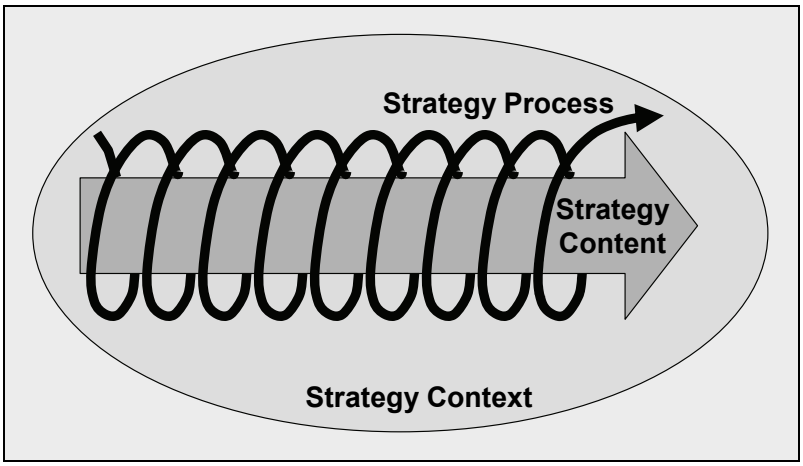
In the literature there have been a few influential contributions on how to dissect a strategic problem into a number of logically distinct, yet related, strategic issues. All of these writers suggest the same distinction, namely between strategy process, strategy content and strategy context. Pettigrew & Whipp (1991) were the first to argue that each strategic problem can be divided into process, content and context aspects. In their view, disentangling strategic problems into these three components can facilitate the understanding of a complex strategic situation. In their terminology, process, content and context should be seen as the *dimensions* of a strategic problem. In a subsequent article, Pettigrew (1992) actually warns of the danger of reductionism, if the dimensions of a strategic problem are seen in isolation. He emphasizes that while distinguishing between these three dimensions can be insightful, retaining a three-dimensional view of problems is required to actually understand and solve them.

Independently, De Wit and Meyer (1994) also arrived at the distinction between strategy process, strategy content and strategy context, which they used to classify strategic issues. Their description of these categories is as follows:

- *Strategy process*. The manner in which strategies come about is referred to as the strategy process. Stated in terms of a number of questions, strategy process is concerned with the '*how'*, '*who'* and '*when'* of strategy – how is, and should, strategy be made, analyzed, dreamt-up, formulated, implemented, changed and controlled; who is involved; and when do the necessary activities take place?
- *Strategy content*. The product of a strategy process is referred to as the strategy content. Stated in terms of a question, strategy content is concerned with the 'what' of strategy – *what* is, and should be, the strategy for the organization and each of its constituent units?
- *Strategy context*. The set of circumstances under which both the strategy process and the strategy content are determined is referred to as the strategy context. Stated in terms of a question, strategy context is concerned with the '*where'* of strategy – where, that is in which organization and which environment, are the strategy process and strategy content embedded?

Figure 2.5 illustrates this distinction and emphasizes the comprehensiveness of the three categories. To solve a strategic problem a strategy (*content*) is made (*process*) under certain conditions (*context*) – and all three are variables with which executives must deal. Executives must determine whether to accept or defy the strategic context, must establish how to engage in a strategy process and must determine which strategy content to pursue. Obviously, each of these three basic clusters of questions is still very broad and needs to be split up further, as will be done in the following sections.

FIGURE 2.5
Strategy Process, Content and Context



This typology has since gained more currency (e.g. Ketchen et al., 1996) and especially the distinction between strategy process and strategy content has been widely acknowledged, as can be judged by special issues of the *Strategic Management Journal* on both subjects and the use of the distinction for structuring the tracks of the Strategic Management Society annual conferences.

2.4.2 Strategy Process: Thinking, Formation and Change

While the strategy process has been widely acknowledged as a category of strategic management issues, there have been few typologies of strategy process issues. All of the relevant typologies identified in section 2.3.1 are of a decision-making steps sort (i.e. recognizing, analyzing, formulation, implementation), and shed little light on the different issues at the heart of the strategy process.

For this reason, De Wit and Meyer (1998) proposed to disaggregate strategy process issues by identifying the major subjects undergoing a process – individuals, strategies and organizations. This is a classification based on units of analysis, each engaged in a different aspect of the overall strategy process, and each encountering a different type of strategic issue. This leads to the following categories of strategic issues:

- *Strategic thinking*. This strategic issue is at the level of *individuals*. Individual executives undergo a *cognitive* process, which is referred to as strategic thinking. Throughout the strategy process the mind of the strategist is in motion and strategic notions are under development. The strategic issue is what successful strategic thinking should be like. What kind of strategic reasoning leads to the best results and what should an executive do to become a superior strategic thinker?
- *Strategy formation*. This strategic issue is at the level of *strategies*. Each strategy undergoes a *creation* process, which is referred to as strategy formation. Not only are strategic intentions formulated into plans, but actual patterns of behavior are also realized in practice. The strategic issue is how successful strategy formation should take place.

How should such activities as recognition, analysis, formulation and implementation be carried out, and who should be involved when, to attain the best performance?

- *Strategic change.* This strategic issue is at the level of *organizations*. Strategic units undergo a *transformation* process, which is referred to as strategic change. Organizations alter their structures, processes and cultures to order to be better aligned with the opportunities and threats in the environment. The strategic issue is how successful strategic change should take place. How can an organization overcome inertia and ensure that the necessary changes are carried out in an adequate and timely manner?

Similar to the warning expressed by Pettigrew, it must be recognized that these three strategic issues are interrelated, and therefore cannot be resolved in isolation. Yet, on the other hand, these three issues are analytically distinct enough to be separately considered and to be worked on one at a time. Each issue has its own cluster of questions and sub-questions that are strongly intertwined, while together these three strategic issues cover the most pressing strategy process questions raised in the literature.

2.4.3 Strategy Content: Business, Corporate and Network Level

When it comes to strategy content issues, the distinction between business and corporate level strategy issues has been relatively well developed (Hax & Maljuf, 1984; Porter, 1987). These two levels of aggregation are often cited as the domain of strategic management, setting the field apart from strategy issues at the functional level (operations strategy, marketing strategy, financial strategy, etc.). Strategy at the business level requires the integration of functional level strategies for a distinct set of products and/or services that are intended for a specific group of customers. Where a company operates in two or more businesses, a multi-business or corporate level strategy is required, that aligns the various business level strategies.

A logical extension of this classification is to explicitly recognize a level of aggregation higher than that of the individual firm, for which strategies also need to be developed (De Wit and Meyer, 1998). This multi-company or *network level* strategy is illustrated in figure 2.6. Most multi-company groups consist of only a few parties, as is the case in strategic alliances, joint ventures and value-adding partnerships. However, networks can also have dozens, even hundreds, of participants. In some circumstances, the corporation as a whole might be a member of a group, while in other situations only a part of the firm joins forces with other organizations. In all cases, when a strategy is developed for a group of firms, this can be labeled a network level strategy.

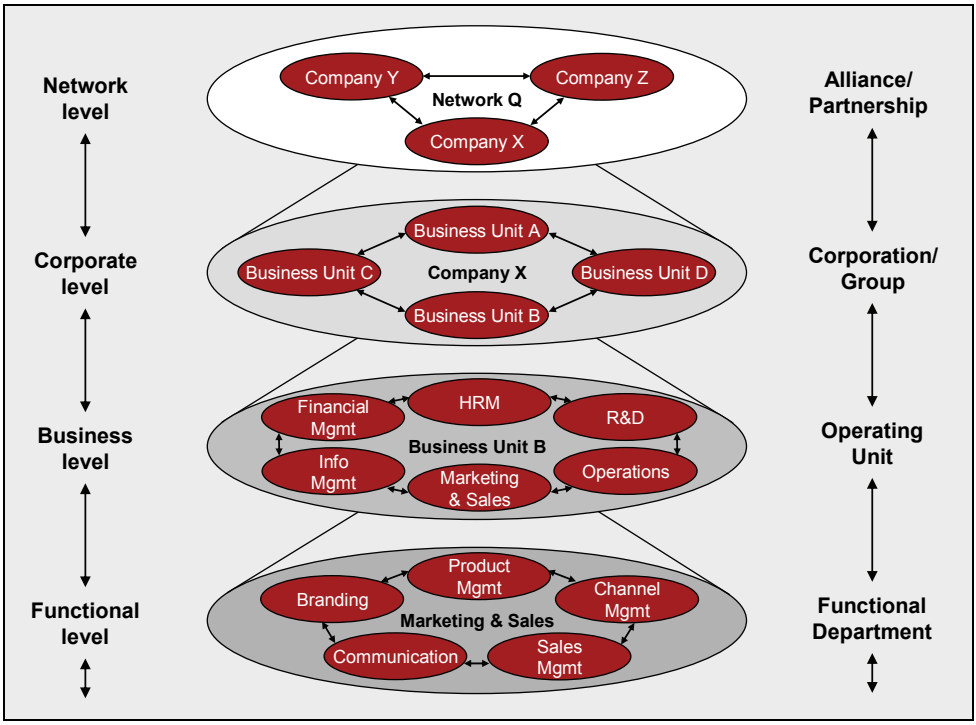
This distinction between *levels of strategy* allows for a classification of strategy content issues to be proposed that is based on a categorization criterion similar to the *unit of analysis* criterion used for the strategy process issues typology. Here too, three main strategic issues can be identified, each corresponding to a different unit (level) of analysis:

- *Business level strategy*. The strategic issue at the business level is found in how each business unit should relate to its *environment*. The challenge is to develop a *competitive advantage* vis-à-vis other powers in a business, on the basis of which above-average performance can be achieved. How an appropriate set of resources should be built up and how the firm should be positioned within the business in such a way that it will have an advantage over competing forces, is the essence of the strategic issue.
- *Corporate level strategy*. The strategic issue at the corporate level is found in how each business unit within a company should relate to *other business units*. The challenge is to

develop a *corporate configuration*, on the basis of which above-average performance can be achieved. How a constellation of business units should be assembled and how they should be related to one another and managed, is the essence of the strategic issue.

- *Network level strategy*. The strategic issue at the network level is found in how each company should relate to *other companies*. The challenge is to develop an appropriate array of *inter-organizational relationships*, on the basis of which above-average performance can be achieved. Which companies should collaborate, in which areas, and in what way, is the essence of the strategic issue.

FIGURE 2.6
Levels of Strategy



For this classification the same must be said as for the former – while these three strategic issues are distinct enough to be reviewed and worked on separately, they are intertwined enough to require a holistic view of strategy content issues.

2.4.4 Strategy Context: Organizational, Industry and International

When it comes to classifying the conditions under which strategies are formed, the most fundamental analytical distinction in use is between the internal and external context (e.g. Emery and Trist, 1965; Lawrence & Lorsch, 1967). This dichotomy between organization and environment is very well established and forms the conceptual basis on which much of the strategic management literature has been built. Porter's well-known opening statement in

Competitive Strategy (1980), that strategy "is about relating the firm to its environment", articulates the widely accepted view that for executives it is imperative to understand the internal and external contexts, and to align the two to each other. Actually, this dichotomy has become so engrained in the cognitive maps of most executives and academics, that some researchers feel the need to point to the fact that the distinction between the organization and its environment is a socially constructed reality, not a physical one. What is seen as internal or external is in the eye of the beholder – and even then it is often blurry what is seen as belonging to the organization and what is categorized as the environment (Weick, 1979; Stubbart and Smircich, 1985).

However, despite the lack of an unambiguous dividing line between the internal and the external context, the distinction is still useful for differentiating between two clusters of strategic questions:

- *Organizational context*. The strategic issue in the organizational context has to do with the extent to which the strategy process and strategy content are deterministically formed by the internal dynamics of the organization. The challenge is to understand where the internal context will shape the direction of the organization and where a strategizing executive can actively impact the organization's strategy process and content. Where is the organization *malleable* to the executive wanting to lead and where will the organization follow its own logic, with little room for an executive to influence outcomes?
- *Industry context*. The strategic issue in the industry context has to do with the extent to which an organization's strategy process and strategy content are deterministically formed by the external dynamics in the environment. The challenge is to understand where the external context will force the organization to adapt itself to the unfolding industry conditions and where the organization has the liberty to shape its own strategy process and content. Where is the industry *malleable* to the organization wanting to lead and where will the industry follow its own logic, with little room for an organization to influence outcomes?

Clearly, both strategic issues share the same fundamental theme – who shapes whom? In the organizational context the issue is whether the executive can shape the firm, and in the industry context the issue is whether the firm can shape its industry. The distinction between these issues, as well as their similarities, has received considerable attention in the literature (Astley and Van der Ven, 1983; Hrebiniak and Joyce, 1985).

A second major distinction in the strategy context with implications for a typology of strategic issues is along the lines of geography. Here the most pronounced distinction is between the *domestic* and the *international context*. As companies move beyond their national context into the international arena, the strategic issue is what impact this should have on the strategy process and strategy content of the firm. The challenge for firms is to understand the level of diversity and integration within the international context and to determine in which regions they want to develop which activities, and the extent of standardization and coordination that is required across borders. This strategic issue resulting from exposure to the international context is referred to as the issue of *international configuration*.

In principle, many other strategy contexts can also be identified with a significant impact on strategy process and strategy content. For instance, Mintzberg and Quinn (1991) make a distinction between the entrepreneurial, mature, diversified, professional and innovation contexts, convincingly arguing that each context has an important influence on the what and how of strategy. Another well-known typology is by Porter (1980), who pays

specific attention to various generic industry contexts, namely fragmented, emerging, mature, declining, and global industries. Yet, I have limited my set of key strategy contexts to three – the organizational, industry and international context – for two main reasons. First, for the sake of simplicity. Too many strategic issues would make a measurement instrument overly complex. Second, and more importantly, for the sake of relevance. In the strategic management literature fundamentally differing views have been expressed on how to deal with the organizational, industry and international contexts, suggesting that executives might also have strikingly different views on these matters. In the case of other contexts the differences of opinion in the literature are much less profound and therefore do not hint at significantly divergent strategy perspectives among executives.

2.4.5 Organizational Strategy and Organizational Purpose

If strategy is a course of action for solving strategic problems with the aim of achieving the organization's purpose, then determining the organizational purpose is strictly speaking not a strategic issue, but a supra-strategic issue. Analytically, it could be argued that deciding on the organization's *raison d'être* should precede strategic decision-making and therefore could easily be separated from the field of strategic management. In reality, however, determining the organization's purpose is intrinsically wrapped up in most strategic problem solving. Typical for the wickedness of strategic problems is the fact that many organizations do not have a clear purpose, try to serve partially contradictory purposes or have different parties pursuing conflicting purposes, all of which only surfaces symptomatically during the strategy process. As executives struggle to answer the who, what, where, when and how of their strategy, invariably the issue of *why* also surfaces. Hence, determining the organization's purpose is in practice an integral part of the strategy making process.

Moreover, it is a 'strategic issue' on which views can be extremely divers, as the literature on the topic makes clear (see chapter 12). Therefore, as organizational purpose is both a highly relevant strategic issue, as well as one on which there are significant differences, it has been included in the list of major strategic issue on which the strategy perspectives measurement instrument will be based.

2.4.6 Summary and Evaluation

The intention of this section has been to create an analytically coherent categorization of generic strategic issues, which could constitute the general framework on which the strategy perspectives measurement instrument could be based. An overview of ten strategic issues identified in the preceding discussion is given in table 2.3.

TABLE 2.3
The Major Strategic Issues

Strategy Process	**Strategy Content**	**Strategy Context**
Strategic Thinking Strategy Formation Strategic Change	Business Level Strategy Corporate Level Strategy Network Level Strategy	Industry Context Organizational Context International Context
Organizational Purpose		

At the end of the previous section four criteria were outlined to guide the disaggregating of generic strategic problems into a set of generic strategic issues. These four criteria can now be employed to evaluate the resulting list:

- *Validity*. In discussing the validity of this typology, a distinction must be made between construct validity and content validity. When looking at construct validity, it has been argued in the previous pages that the distinctions on which the typology has been based fit well with established theory in the field of strategic management. In the following ten chapters of this work, each of the ten strategic issues will be further explored and linked to the existing strategy theory to further validate the constructs employed. As for content validity, the preliminary testing outlined in chapter 1 has indicated that the ten strategic issues are clear enough to be directly recognized by executives and distinct enough to be seen as separate issues. There were also no other strategic issues that were systematically identified as missing in the typology. While these initial tests did not involve rigorous content validation methods, they did provide sufficient confidence to take the strategic issue typology as the basis for the development of the strategy perspective measurement scales (this topic will be discussed at greater length in chapter 13).
- *Simplicity*. It seems odd to commend a typology for being simple – at first glance one would expect validity to be the only important quality of a typology. However, in developing a measurement instrument to gain an overview of the most important ways of looking at strategic problems, a highly valid yet fine-grained typology would create practical difficulties. An overly detailed typology would bring along exponential complexity in designing, administering, processing and interpreting the research. Furthermore, to paraphrase Churchill, an extensive typology would by its very complexity guard itself against the threat of being used in practice. Just as the strength of a good model lies in its ability to simplify, so too a good typology must create categories that are not too specific. It is from this point of view that the division of strategic problems into ten key strategic issues should be considered a workable level of disaggregation. Whether this simplicity extracts a high price in terms of validity will be further discussed in chapter 13.
- *Relevance*. Besides validity and simplicity, the strategic issue typology should also capture all of the strategic issues that are viewed as important in organizational practice. Where relevance is taken as a key criterion, no elements should be included in the typology that are marginal to the strategic behavior of executives, while no elements should be left out that are central to their strategy making. As reported in chapter 1, a main focus of the preliminary research was to establish the relevance of the strategic issue typology and to adapt it to arrive at the current categorization. Based on this research it can be concluded that the strategic issue typology described here meets the criterion of relevance, both in the estimation of fellow researchers and business executives.
- *Difference*. The final criterion employed for drawing up the strategic issue typology was to emphasize those aspects on which views were anticipated to differ most. This criterion was operationalized in two ways. First, the diversity of views expressed among researchers on how to approach strategic issues was taken as indicator of a potential variety of perspectives among business executives. Hence, strategic issues that have been hotly debated in the literature were inferred to be differentiating in business practice as well. This variety of strategy perspectives in the strategic management literature will be further detailed in the following ten chapters. Second, in the preliminary field research the ten strategic issues were tested to see whether they provoked a wide variety of responses,

which indeed they did. Hence, both methods underline the discriminatory value of the strategic issue typology.

Taken together, this evaluation sheds a favorable light on the use of the ten strategic issues as a basis for a strategy perspective measurement instrument. Hence, the next section will proceed to identify strategy perspectives based on this typology.

2.5. A TYPOLOGY OF STRATEGY PERSPECTIVES

The research question posed in chapter 1 was 'how can the similarities and differences in the key strategy perspectives held by business executives be made measurable?'. In the discussion on the research methodology used in this project it was argued that there are basically two general ways in which the researcher can attempt to answer this question. On the one hand, the researcher can work *inductively*, heading into the field and recording as many different views as possible, to later categorize them into certain strategy perspectives. On the other hand, the researcher can work *deductively*, deriving categories of strategy perspectives from the literature, to later test them in the field. For this research project the latter methodology has been selected, requiring a typology of strategy perspectives to be proposed, based on the literature and preliminary research.

In the following ten chapters the strategy perspectives that correspond with the ten strategic issues will be discussed in detail. In each chapter one strategic issue will be dissected, with a focus on uncovering the differing strategy perspectives held on the topic. The order of the chapters will follow the order of the strategic issues as outlined in table 2.3.

Yet, before moving to this detailed analysis, it should be made explicit that a specific method will be employed to categorize the variety of strategy perspectives. Instead of attempting to obtain a complete and fine-grained typology of strategy perspectives for each strategic issue, it is the intention to identify just two strategy perspective archetypes per chapter (twenty in total). These two archetypes will be the two extreme positions along the key dimension dividing opinions on each strategic issue. How the key dimensions, along which views differ, have been identified, is discussed in section 2.5.1. How these dimensions have led to the definition of the twenty strategy perspective archetypes will be described more fully in section 2.5.2. This chapter concludes with an overview in table 2.4 of the typology of strategy perspectives employed in drawing up the measurement instrument.

2.5.1 Identifying Strategy Tensions

On each strategic issue a multitude of views can exist, that can differ on a wide variety of criteria. If a *fine-grained* strategy perspective measurement instrument were being developed for just one strategic issue, then a detailed analysis and categorization of the various views expressed in the literature would be appropriate. In particular, it would be valuable to identify the different dimensions along which the views were distinct from one another. Such an extensive review of the literature and classification of strategy perspectives along multiple dimensions would be a Herculean task, but an excellent contribution to the field. As it stands, there have been few such efforts to generate a taxonomy of strategy perspectives for a single strategic issue. Where literature reviews are presented they generally deal with different approaches and schools of thought among researchers, as opposed to different strategy perspectives that could be adopted by executives.

Here it would be folly to pursue such an extensive review of all strategic management literature to uncover the full richness of strategy perspectives on ten strategic issues. What

few have achieved on one strategic issue, cannot be accomplished on ten strategic issues simultaneously. Consequently, a fine-grained strategy measurement tool, distinguishing multiple dimensions of potential disagreement on each strategic issue, must be dismissed as overly ambitious. Instead, a more *rough-grained* approach has been selected in which only one dimension of potential disagreement has been identified per strategic issue. In other words, a conscious simplification has been applied to the mapping of different strategic views – instead of a complete, yet complex, measurement of all criteria explaining the differences in worldviews between strategizing executives, this research project limits itself to mapping differences along ten key dimensions, one per strategic issue.

However, the self-imposed limitation to focus on just one dimension of potential disagreement per strategic issue has not implied that any dimension will do. The objective has been to identify the most crucial aspect dividing opinions on each strategic issue. In almost all cases this key dimension around which strategy perspectives differ has already been pointed out in the literature, yet in a few cases it has been indirectly derived from the conflicting points of view expressed in the field.

In searching for the main dimensions of disagreement, the focus has been on looking for the key trade-off in each strategic issue, as different executives can be expected to understand and weigh such trade-offs differently. Management in general, and strategy in particular, is fraught with conflicting demands that can not be fully met at the same time, requiring executives to make difficult trade-off decisions. As executives are confronted with such conflicting, or even contradictory, demands, they must weigh the relative importance of each factor and strike some sort of balance between them. In practice, executives usually do not consciously wrestle with these trade-offs every time a strategic decision needs to be made, but will develop a preference, or even a recipe, for dealing with such situations. Over a period of time they build-up an understanding of how a particular trade-off should be seen and which behaviors constitute an appropriate reaction. This predisposition to view a trade-off in a specific way forms their strategy perspective. However, other executives with other values and other experiences are likely to view such a crucial trade-off differently, leading to different strategy perspectives.

Such trade-offs confronting executives shall here be referred to as strategy tensions. Stated in terms of a formal definition:

> A ***strategy tension*** exists where an organization is confronted with two conflicting strategic pressures or demands that need to be dealt with simultaneously.

While every organization will have its own portion of idiosyncratic strategy tensions, there are a number of universal strategy tensions that all organizations need to deal with. For instance, every organization needs to determine whether to be cooperative or competitive in its relationships towards others, and every organization needs to determine whether they will change through evolution or revolution. As these fundamental strategy tensions are universal, most experienced executives will have an explicit or implicit view on how to grapple with them, but these views are often dissimilar.

Hence, the objective of the second phase of this research study, as described in chapter 1, has been to review the strategy literature to determine the most pressing strategy tensions, and to analyze whether they are at the root of the most fundamental differences of view as expressed in the writings in the field of strategic management. The result has been the identification of ten key strategy tensions, one per strategic issue, on which strategy perspectives in the literature differ greatly. These ten strategy tensions form the key dimensions along which important differences in views can be mapped.

2.5.2 Identifying Strategy Perspective Archetypes

Once it has been determined along which dimensions the differences of view will be measured, two strategy perspective archetypes can be described that fit at the two poles of each measurement dimension. These two extremes, or pure forms, constitute the 'book ends' between which all other points of views can be found. In some cases these polar positions are quite rarely expressed in the literature, while in other instances these extremes are rather popular.

For the purpose of constructing a measurement instrument a thorough description of these two strategy perspective archetypes has been selected over a description of the various 'shades of gray' in between. The reasons for this choice of two strategy perspective archetypes over a more extensive typology consisting of various strategy perspectives along each dimension, have been to achieve *clarity* and *simplicity*. Defining various categories of strategy perspectives along each dimension is fraught with taxonomic difficulties – 'how many categories should be recognized?', 'where should the exact dividing lines be drawn?', 'can the same principles be applied to all dimensions?' – while the task of measuring who belongs in which category would make a measurement instrument overly complex. The alternative is to avoid the temptation of defining a typology of strategy perspectives, in favor of measuring each executive's strategy perspective on a continuum between the two extreme archetypes. It is for this reason that in the coming ten chapters no comprehensive classification of strategy perspectives will be given, but instead each chapter will outline the two extreme positions on the key dimension of disagreement (see table 2.4).

In overview, to arrive at the strategy perspective archetypes on each strategic issue, the procedure in each of the next ten chapters will be as follows:

- *Review strategic issue*. First, every chapter will start with an overview of the major questions comprising the strategic issue. The focus of this initial analysis is to uncover conflicting demands on the business executive, around which differences of opinion can arise.
- *Identify key strategy tension*. Second, the most important strategy tension at the heart of each strategic issue will be identified. The focus of this analysis is to determine the nature of the conflicting pressures and to explore their influence on the strategic decisions that executives need to make.
- *Describe the two extreme strategy perspectives*. Third, a detailed description of the two extreme positions at both poles of the dimension will be given. The focus of this analysis is to discover the main points of contention, conflicting assumptions and differing values between the two strategy perspective archetypes.

After each strategy perspective archetype has been described, the discussion will be concluded by the formulation of 12 perspective-specific statements that will form the basis of the measurement instrument. How the measurement instrument is subsequently constructed will be explained in part III of this book.

TABLE 2.4
The Strategy Tensions and Strategy Perspective Archetypes

STRATEGIC ISSUE	*STRATEGY TENSION*	*STRATEGY PERSPECTIVES*
Strategic Thinking	Logic vs. Creativity	Rational Thinking vs. Generative Thinking
Strategy Formation	Deliberateness vs. Emergence	Strategic Planning vs. Strategic Incrementalism
Strategic Change	Revolution vs. Evolution	Discontinuous Change vs. Continuous Change
Business Level Strategy	Markets vs. Resources	Outside-in vs. Inside-out
Corporate Level Strategy	Responsiveness vs. Synergy	Portfolio Organization vs. Core Competence
Network Level Strategy	Competition vs. Cooperation	Discrete Organization vs. Embedded Organization
Industry Context	Compliance vs. Choice	Industry Evolution vs. Industry Creation
Organizational Context	Control vs. Chaos	Organizational Leadership vs. Organizational Dynamics
International Context	Globalization vs. Localization	Global Convergence vs. International Diversity
Organizational Purpose	Profitability vs. Responsibility	Shareholder Value vs. Stakeholder Values

PART II:

EXPLORING DIFFERENT VIEWS:

IDENTIFYING STRATEGY PERSPECTIVES

CHAPTER 3: STRATEGIC THINKING

CHAPTER 4: STRATEGY FORMATION

CHAPTER 5: STRATEGIC CHANGE

CHAPTER 6: BUSINESS LEVEL STRATEGY

CHAPTER 7: CORPORATE LEVEL STRATEGY

CHAPTER 8: NETWORK LEVEL STRATEGY

CHAPTER 9: THE INDUSTRY CONTEXT

CHAPTER 10: THE ORGANIZATIONAL CONTEXT

CHAPTER 11: THE INTERNATIONAL CONTEXT

CHAPTER 12: ORGANIZATIONAL PURPOSE

Chapter 3

STRATEGIC THINKING

3.1 INTRODUCTION

What goes on in the mind of the strategist? How do executives think, what influences their thinking and how does their thinking have an impact on their actual choices and behaviors? An intriguing question that is easy to ask, but difficult to answer. Yet, a question that is important for this study in two ways – as the broad *research context* in which this study is embedded and as one of ten *strategy issues* on which strategists can have a view.

As the research context, managerial cognition in general and strategic thinking in particular, is the theoretical field in which this study is situated. As outlined in the previous chapters, this study focuses on one aspect of strategic thinking, namely the potential existence of preconceived views used by executives when looking at strategy issues. To understand the nature of these preconceived views it is insightful to delve more deeply into what goes on in the minds of executives. To this end, this chapter on strategic thinking is intended to provide the theoretical basis necessary for developing a strategy-oriented psychometric instrument.

However, strategic thinking is also a strategy issue on which individual strategists can have a view. Strategists can have a perspective on what constitutes strategic thinking, what is most effective and how they can improve their own strategizing capabilities. They can also champion an approach to strategic thinking in their organization and take actions to strengthen the level of strategic thinking among their colleagues. Good strategic thinking within the organization can lead to better performance, but what is good strategic thinking? As will become clear in the following pages, executives can have very different assumptions and beliefs on this topic. Therefore, the second objective of this chapter is to explore the issue of strategic thinking deeply enough to be able to outline where fundamental differences of opinion exist between executives, as the first of the ten dimensions of the 'strategy profiler' instrument.

So, coming back to the question at the top of this page: what goes on in the mind of the strategist? Well, a lot, but if reduced to its bare essentials it can be said that strategists are engaged in the process of dealing with *strategic problems*. Not problems in the negative sense of troublesome conditions that need to be avoided, but in the neutral sense of challenging situations that need to be resolved – a strategic problem is a set of circumstances requiring a reconsideration of the current course of action, either to profit from observed opportunities or to respond to perceived threats. To deal with these strategic problems, executives must not simply think, but they must go through a *strategic reasoning process*, searching for ways to define and resolve the challenges at hand. Executives must structure their individual thinking steps into a reasoning process that will result in effective strategic behavior. The question is how executives actually go about defining strategic problems – how

do they identify and diagnose what is going on? – and how they go about solving strategic problems – how do they generate, evaluate and decide on potential answers? It is this issue of strategic reasoning, as a string of strategic thinking activities directed at defining and resolving strategic problems that needs to be examined first, before looking at different perspectives.

3.2 THE ISSUE OF STRATEGIC REASONING

The mind of the strategist is a complex and fascinating apparatus that never fails to astonish and dazzle on the one hand, and disappoint and frustrate on the other. We are often surprised by the power of the human mind, but equally often stunned by its limitations. For the discussion here it is not necessary to unravel all of the mysteries surrounding the functioning of the human brain, but a short overview of the capabilities and limitations of the human mind will greatly help to understand the issue of strategic reasoning.

The human ability to know is referred to as *cognition*. As strategists want to know about the strategic problems facing their organizations, they need to engage in *cognitive activities*. These cognitive activities (or strategic thinking activities) need to be structured into a strategic reasoning process. Hence, the first step towards a better understanding of what goes on in the mind of the strategist is to examine the various cognitive activities making up a strategic reasoning process. The four main cognitive activities will be discussed in the first section below. To be able to perform these cognitive activities, people need to command certain mental faculties. While very sophisticated, the human brain is still physically strongly limited in what it can do. These limitations to people's *cognitive abilities* will be reviewed in the second section. To deal with its inherent physical shortcomings, the human brain copes by building simplified models of the world, referred to as *cognitive maps*. The functioning of cognitive maps will be addressed in the third section.

In figure 3.1 the relationship between these three topics is visualized, using the metaphor of a computer. The cognitive abilities of our brains can be seen as a *hardware level* question – what are the physical limits on our mental faculties? The cognitive maps used by our brains can be seen as an *operating system level* question – what type of platform/language is 'running' on our brain? The cognitive activities carried out by our brains can be seen an *application level* question – what type of program is strategic reasoning?

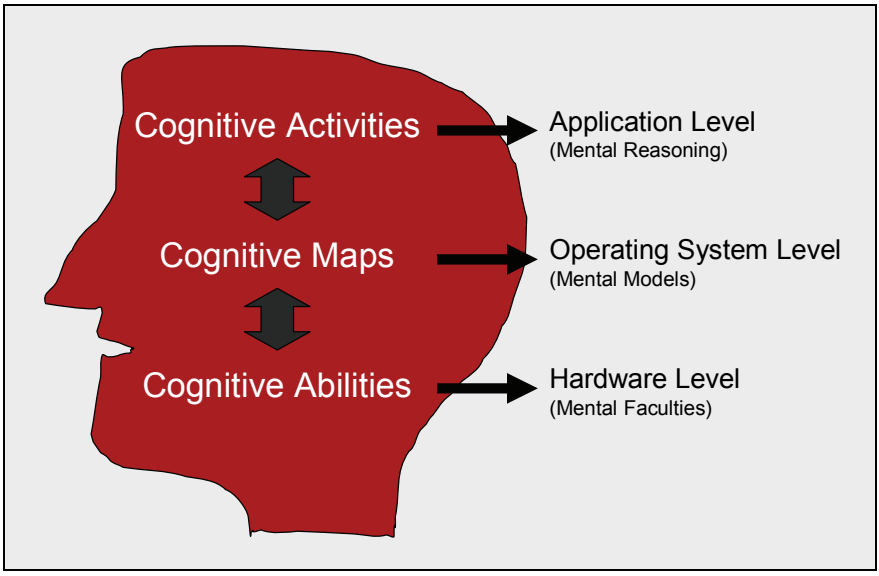
3.2.1 Cognitive Activities

The strategic reasoning process consists of a number of strategic thinking elements or *cognitive activities* – mental tasks intended to increase the strategist's knowing. A general distinction can be made been cognitive activities directed towards *defining* a strategic problem, and cognitive activities directed at *solving* a strategic problem. Each of these two major categories can be further split in two (see figure 3.2), leading to the following general elements of a strategic reasoning process:

- *Identifying*. Before strategists can move to benefit from opportunities or to counter threats, they must be aware of these challenges and acknowledge their importance. This part of the reasoning process is variably referred to as identifying, recognizing or sense-making.

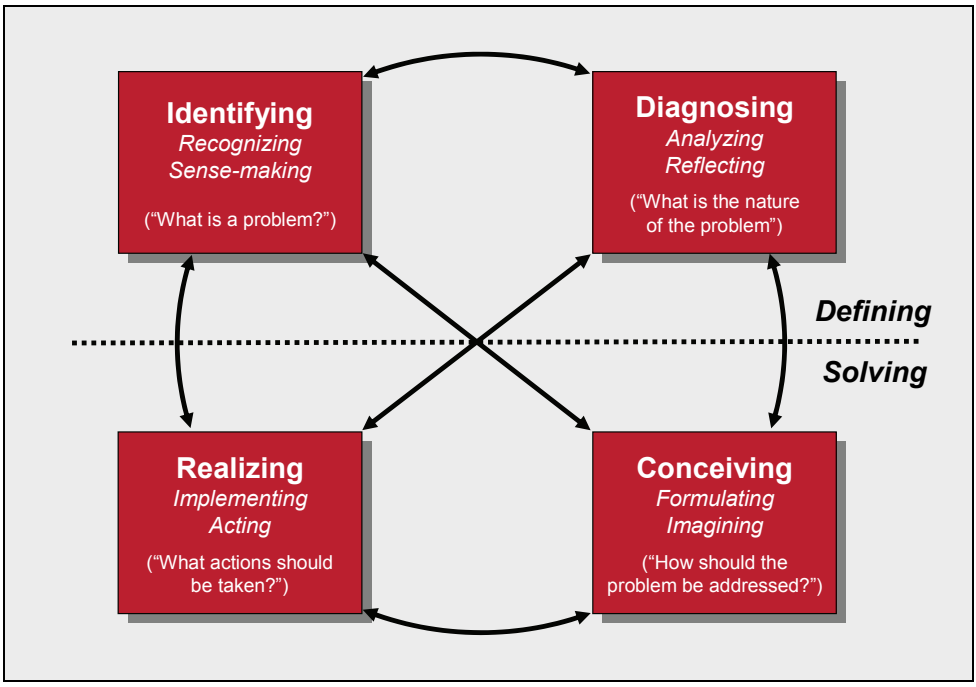
- *Diagnosing*. To come to grips with a problem, strategists must try to understand the structure of the problem and its underlying causes. This part of the reasoning process is variably referred to as diagnosing, analyzing or reflecting.
- *Conceiving*. To deal with a strategic problem, strategists must come up with a potential solution. If more than one solution is available, strategists must select the most promising one. This part of the reasoning process is variably referred to as conceiving, formulating, or imagining.
- *Realizing*. A strategic problem is only really solved once concrete actions are undertaken that achieve results. Strategists must therefore carry out problem-solving activities and evaluate whether the consequences are positive. This part of the reasoning process is variably referred to as realizing, implementing, or acting.

FIGURE 3.1
Cognitive activities, maps and abilities



A structured approach to these four cognitive activities is to carry them out in the above order, starting with problem identification and then moving through diagnosis to conceiving solutions and finally realizing them (clockwise movement in figure 3.2). In this approach the first step, identifying strategic problems, would require extensive external and internal scanning, thorough sifting of incoming information, and the selection of priority issues. In the next reasoning step, the strategic problems recognized would have to be diagnosed by gathering more detailed data, and by further analyzing and refining this information. Once the problem had been properly defined, a strategy could be formulated by evaluating the available options and deciding which solution would be best. In the final phase, realization, the strategist would need to ensure execution of the proposed solution by consciously planning and controlling implementation activities. In this case, the four elements of the strategic reasoning process could actually be labeled *recognizing*, *analyzing*, *formulating* and *implementing*.

FIGURE 3.2
Elements of a strategic reasoning process



However, strategists do not always reason in this step-by-step fashion. Their thinking is often less orderly, with identifying, diagnosing, conceiving and realizing intermingled with one another, even going on at the same time. Nor are the cognitive activities as straightforward as portrayed above. The identification of strategic problems is often not about objective observation, but rather *subjective interpretation* – by looking at the world from a particular angle, strategists see and value particular strengths, weaknesses, opportunities and threats. Such sense-making activities (Weick, 1979; Gioia and Chittipeddi, 1991) lead to attention being paid to some issues, while others do not make the *strategic agenda* (Dutton, 1988; Ocasio, 1997). Likewise, diagnosing strategic problems is not always a structured analytical process. Gaining a deeper understanding of strategic problems may involve explicit analysis, but also *intuitive reflecting* – by employing unconscious reasoning rules strategists often quickly form a general picture of how key aspects of a strategic problem are interrelated.

Conceiving strategic solutions can be equally 'messy' and subjective. Often, strategic options are not chosen from an available repertoire of potential solutions, but they are invented. In other words, new options are often not selected, discovered or figured out, but are envisioned – strategists imagine how things could be done. Such idea generation can involve reasoning by analogy or metaphor, brainstorming, or pure fantasizing. New potential solutions may come to the strategist in a flash (eureka!) or emerge over time, but usually require a period of incubation beforehand, and a period of nurturing afterwards. Furthermore, strategists often find it impossible to objectively prove which new idea would be the best solution. Therefore, the process of deciding on the solution to be pursued may involve more judgment than calculation.

Finally, it must be emphasized that action does not always come last, in the form of solution implementation. Often, strategists do not wait for a problem to be precisely defined, and for a solution to be fully conceived, before starting to act. On the contrary, strategists often feel they must first act – they must have experience with a problem and know that the current strategy will not be able to overcome the problem. To find a suitable solution it is often also necessary to test certain assumptions in practice and to experiment. Hence, acting regularly precedes, or goes hand in hand with, all other cognitive activities.

3.2.2 Cognitive Abilities

People are not omniscient – they do not have infinite knowledge. To some extent this is due to the nature of reality – many future events are inherently unpredictable, due to factors that are uncertain or unknowable. Yet, humans are also burdened with rather imperfect cognitive abilities. The human brain is severely limited in what it can know (Simon, 1947). The limitation to human's cognitive abilities is largely due to three factors:

- *Limited information sensing ability*. Humanity's first 'handicap' is a limited information-sensing ability. While the senses – touch, smell, taste, hearing and seeing – are bombarded with stimuli, much of reality remains unobservable to humans. This is partially due to the physical inability to be everywhere, all the time, noticing everything. However, people's limited ability to register the structure of reality is also due to the inherent superficiality of the senses and the complexity of reality. The human senses cannot directly identify the way the world works and the underlying causal relationships. Only the physical consequences of the complex interactions between elements in reality can be picked up by a person's sensory system. Therefore, the mental representations of the world that individuals build up in their minds are necessarily based on circumstantial evidence.
- *Limited information processing capacity*. Unfortunately, a second drawback is that humans do not have unlimited data processing abilities. Thinking through problems with many variables, complex relationships and huge amounts of data is a task that people find extremely difficult to perform. Approaching every activity in this way would totally overload a person's brain. For this reason, humans hardly ever think through a problem with full use of all available data, but necessarily make extensive use of mental shortcuts, referred to as *cognitive heuristics* (Janis, 1989). Cognitive heuristics are mental 'rules of thumb' that simplify a problem, so that it can be more quickly understood and solved. Cognitive heuristics focus a person's attention on a number of key variables that are believed to be most important, and present a number of simple decision rules to rapidly resolve an issue. The set of possible solutions to be considered is also limited in advance.
- *Limited information storage capacity*. Another human cognitive shortcoming is poor memory. People have only a limited capacity for storing information. Remembering all individuals, events, dates, places and circumstances is beyond the ability of the human brain. Therefore, people must store information very selectively and organize this information in a way that it can be easily retrieved when necessary. Here again, cognitive heuristics are at play – 'rules of thumb' make the memorization process manageable in the face of severe capacity limitations. Such heuristics help to simplify complex clusters of data into manageable chunks and help to categorize, label and store this information so that it can be recalled at a later moment.

To deal with these severe physical limitations, the brain has come up with more than only simple cognitive heuristics. The human mind has come to work with more holistic cognitive maps, which will be examined in more detail below.

3.2.3 Cognitive Maps

Knowledge that people have is stored in their minds in the form of *cognitive maps* (e.g. McCaskey, 1982, Weick & Bourgnon), also referred to as *cognitive schemata* (e.g. Anderson, 1983; Schwenk, 1988), *mental models* (e.g. Lord and Day, 1992; Knight et al., 1999), *knowledge structures* (e.g. Lyles and Schwenk, 1983; Walsh, 1995) and *construed reality* (Finkelstein and Hambrick, 1996). These cognitive maps are representations in a person's mind of how the world works. A cognitive map of a certain situation reflects a person's beliefs about the importance of the issues and about the cause and effect relationships between them.

Cognitive maps are formed over time through education, experience and interaction with others. Based on the inputs of their senses, people will infer causal relationships between phenomena, making guesses about unobservable factors and resolving inconsistencies between the bits of information received. In turn, people's cognitive maps steer their senses – while cognitive maps are built on past sensory data, they will consequently direct which new information will be sought and perceived. A person's cognitive map will focus attention on particular phenomena, while blocking out other data as noise, and will quickly make clear how a situation should be perceived. In this way, a cognitive map provides an *interpretive filter* or *perceptual screen*, aiding the senses in selecting and understanding external stimuli (England, 1967; Starbuck and Milliken, 1988). Furthermore, cognitive maps help to direct behavior, by providing an existing repertoire of 'problem-solving' responses (also referred to as *scripts* or *recipes*) from which an appropriate action can be derived.

In building their cognitive maps, people acquire a lot of their knowledge by means of direct experience. They learn to communicate, play an instrument, drive a vehicle and solve problems by doing. This knowledge is added to people's cognitive maps without being explicitly *articulated*. In other words, knowledge gained through *experiential learning* is usually not codified into formal rules, principles, models or theories, but remains *tacit* (Polanyi, 1966; Nonaka, 1991). People formulate implicit models and draw conclusions, but do so largely unconsciously. In this way, cognitive maps evolve without people themselves being entirely aware of their own cognitive map. Hence, when people use their *intuition*, this is not a mystical or irrational way of reasoning, but thinking guided by the tacit knowledge they have acquired in the past (Behling and Eckel, 1991). Intuitive thinking is the opposite of analytical thinking – informal and holistic (Von Winterfeldt and Edwards, 1986). Informal means that the thinking is largely unconscious and based on assumptions, variables and causal relationships not explicitly identifiable by those doing the thinking. Holistic means that the thinker does not aim at unraveling phenomena into their constituent parts, but rather maintains a more integrated view of reality.

Yet, people's cognitive maps are not developed independently, but in interaction with one another. People tend to construct a shared understanding of the world by interacting with each other within a group over an extended period of time. By exchanging interpretations of what they see, it is said that they *enact* a shared reality (Daft & Weick, 1984; Smircich and Stubbart, 1985). The resulting shared cognitive map is variably referred to as the group's *dominant logic* (Prahalad & Bettis, 1986), common *paradigm* (Kuhn, 1970) or *belief system* (Noorderhaven, 1995). Such a shared worldview can exist within small social units, such as a firm or a family, but also within larger units, such as an industry or a nation.

As individuals can belong to different groups, they can be influenced by different belief systems simultaneously. As members of a national culture, their cognitive maps will to a certain extent be influenced by the beliefs dominant within the nation. As employees of a company, their cognitive maps will be affected by the beliefs common within the firm and the industry as well. In the same manner, people can be impacted by the professional community to which they belong, their religious affiliation, their political party and any other groups in which they interact with others (Hambrick et al., 1993; Sutcliffe and Huber, 1998). Due to the *mutually inclusive* nature of group membership, an individual's cognitive map will be a complex combination of elements taken from different group-level dominant logics. While these paradigms on which an individual draws can be complementary, or overlapping yet consistent, it is quite possible that inconsistencies arise (Schein, 1985; Trice and Beyer, 1993).

As shared beliefs develop over time through interaction and are passed on through *socialization*, they remain largely tacit. The shared cognitive map of a group is literally 'common sense' – sense shared by a common group of people. However, where members of different groups come into conflict with one another, or where an individual needs to deal with the inconsistencies brought on by multiple group memberships, beliefs can become more articulated. Different behaviors, based on different cognitive maps, will often lead to the identification and codification of beliefs, either to protect them or to engage in debate with people with other views. As paradigms become more articulated, they also become more mobile, making it possible to transfer ideas to people without direct interaction.

The downside of cognitive maps is that they exhibit a high level of *rigidity*. People are generally not inclined to change their minds. Once people's cognitive maps have formed, and they have a grip on reality, they become resistant to signals that challenge their conceptions. As McCaskey (1982) remarks, the mind "strives mightily to bring order, simplicity, consistency, and stability to the world it encounters," and is therefore reluctant to welcome the ambiguity presented by contradicting data. People tend to significantly overestimate the value of information that confirms their cognitive map, underestimate disconfirming information, and they actively seek out evidence that supports their current beliefs (Schwenk, 1984). Once an interpretive filter is in place, seeing is not believing, but believing is seeing. People might have the impression that they are constantly learning, but they are largely learning within the bounds of a paradigm. When an individual's map is supported by similar beliefs shared within a firm, industry or country, the ability to question key aspects of a paradigm will usually be rather limited. Not only does the individual have no 'intellectual sounding board' for teasing out new ideas, but deviation from the dominant logic might also have adverse social and political ramifications within the group (e.g. Powell and DiMaggio, 1983; Aldrich and Fiol, 1994). Not for nothing the old proverb is: 'old ideas never change; they eventually die out' (Kuhn, 1970).

For strategists, cognitive rigidity is particularly worrying. Strategists should be at the forefront of market developments, identifying changing circumstances and new opportunities before their competitors. Strategic thinking is by its very nature focused on understanding and shaping the future, and therefore strategists must have the ability to challenge current beliefs and change their own mind. They must be able to come up with innovative, but feasible, new strategies that will fit with the unfolding reality. This places extraordinary cognitive demands on strategists – they must be able to overcome the limitations of their own cognitive maps and develop a new understanding.

3.3 THE TENSION BETWEEN LOGIC AND CREATIVITY

Many management theorists have noted that the opposites of intuition and analysis create a tension for executives (e.g. Langley, 1989, 1995; Pondy, 1983). While some researchers make a strong case for more formal analysis (e.g. Isenberg, 1984; Schoemaker & Russo, 1993), there is a broad understanding that executives need to employ both intuitive and analytical thinking, even if they are each other's opposites.

The extensive use of intuitive judgment among executives is understood by most as necessary and beneficial. An executive's intuition is built up through years of experience and contains a vast quantity of tacit knowledge that can only superficially be tapped by formal analysis. Intuition can also give a 'richer' assessment, by blending in all types of qualitative information. Moreover, intuitive thinking is often better at capturing the big picture than analytical thinking. And very practically, intuition is needed to cut corners – without the widespread use of cognitive heuristics, management would grind to a halt, overloaded by the sheer complexity of the analyses that would need to be carried out. Such a situation of rationality gone rampant is referred to as *paralysis by analysis* (Lenz and Lyles, 1985; Langley, 1995).

However, it is equally clear to most that human intuition is often unreliable. Cognitive heuristics are 'quick and dirty' – efficient, but imprecise. They help people to intuitively jump to conclusions without thorough analysis, which increases speed, but also increases the risk of drawing faulty conclusions. The main danger of cognitive heuristics is that they are inherently biased, as they focus attention on only a few variables and interpret them in a particular way, even when this is not appropriate (e.g. Tversky & Kahneman, 1986; Bazerman, 1990). For this reason, many academics urge practitioners to bolster their intuitive judgments with more explicit rational analysis. Especially in the case of strategic decisions, more time and energy should be made available to avoid falling prey to common cognitive biases. Otherwise the ultimate result might be a 'corporate gravestone' with the epitaph '*extinct by instinct'* (Langley, 1995).

While the tension between intuition and analysis is important, it does not go to the heart of the strategic reasoning issue. For strategists the more fundamental question is how they can escape getting stuck with an outdated cognitive map. How can they avoid the danger of building up a flawed picture of their industry, their markets and themselves? As strategists must be acutely aware of the unfolding opportunities and threats in the environment, and the evolving strengths and weaknesses of the organization, they must be able to constantly reevaluate their views.

On the one hand, this requires rigorous *logical thinking*. All the key assumptions on which a strategist's cognitive map has been based need to be reviewed and tested against developments in the firm and its environment. On the other hand, strategists must have the ability to engage in *creative thinking*. To be able to see new opportunities and strengths, strategists must be able to think beyond current models of reality. Both demands on strategists will be reviewed in more detail below.

3.3.1 The Demand for Logical Thinking

It is clear that if executives only base their strategic decisions on heavily biased cognitive maps, unconsciously built up through past experience, this will lead to very poor results. Executives need to have the ability to critically reflect on the assumptions they hold, to check whether they are based on actual fact, or on organizational folklore and industry recipes. They must be capable of making their tacit beliefs more explicit, so that the validity of these

mental models can be evaluated and they can be further refined. In short, to be successful strategists, executives need to escape the confines of their own cognitive maps – and those of other stakeholders engaged in the strategy process.

Assessing the validity of a cognitive map requires strong logical thinking. Logical thinking is a disciplined and rigorous way of thinking, on the basis of formal rules. When employing *logic,* each step in an argumentation follows from the previous, based on valid principles. In other words, a logical thinker will only draw a conclusion if it is arrived at by a sound succession of arguments.

Logical thinking can be applied to all four cognitive activities outlined in figure 3.2. When identifying and diagnosing a strategic problem, logical thinking can help to avoid the emotional interpretations that so often color people's understanding of environmental opportunities and threats, and organizational strengths and weaknesses. Logical thinking can also expose a person's bullish or bearish bias and can be instrumental in discarding old 'theories' of how the firm and its environment function. By analyzing the empirical facts and rigorously testing the hypotheses on which the firm's shared cognitive map has been built, the strategist can prevent building a false model of reality.

When conceiving and realizing a strategic solution, logical thinking can help to avoid the danger of following outdated habits and routines. *Routines* are programmed courses of action that originally were deliberately conceived, but have been subsequently internalized and are used automatically (March and Simon, 1993). *Habits* are programmed courses of action that have developed unconsciously. By explicitly formulating strategic options and subjecting them to formal evaluation, the strategist can break away from such established behavior and develop new approaches to gaining and retaining competitive advantage. Moreover, logical thinking can aid in making a distinction between fantasy and feasibility. Sound logic can serve to weed out strategic options that are flights of fancy, by analyzing the factors that will determine success or failure.

3.3.2 The Demand for Creative Thinking

Creative thinking is the opposite of logical thinking. As described above, when employing logic, a thinker bases each step in a train of thought on the previous steps, following formal rules of valid thinking. De Bono (1970) refers to this pattern of thought as *vertical thinking*. However, when creativity is used, the thinker doesn't take a valid step, but takes a leap of imagination, without being able to support the validity of the mental jump. In creative thinking a person abandons the rules governing sound argumentation and draws a conclusion that is not justified based on the previous arguments. In this way the thinker generates a new understanding, but without objective proof that the new idea 'makes sense'. De Bono refers to this pattern of thought as *lateral thinking*.

In essence, creative thinking takes liberty in following thinking rules. One idea might lead to another idea, without formal logic interfering. One variable might be linked by the thinker to another, without a sound explanation of why a correlation is assumed. Creativity in effect creates a new understanding, with little attention paid to supporting evidence. Often logic is used afterwards to justify an idea that was actually generated by creative means.

When identifying and diagnosing strategic problems creative thinking is often needed. Old cognitive maps usually have a very compelling logic, locking people into old patterns of thinking. These old cognitive maps are usually tried and tested, and have become immune to external signals that they are no longer fitting. Thinking within the boundaries of a shared cognitive map is generally accepted and people tend to proceed rationally – that is, they try to avoid logical inconsistencies. Challenging a cognitive map's fundamental assumptions, however, cannot be done in a way that is logically consistent with the map itself.

Contradicting a paradigm is illogical from the point of view of those who accept the paradigm. Therefore, changing a rigid and subjective cognitive map, rooted in a shared paradigm, requires strategists to imagine new ways of understanding the world, which do not logically follow from past beliefs. Strategic thinkers need to be willing and able to break with orthodoxy and make leaps of imagination, that are not logically justified, but needed to generate novel ways of looking at old problems.

The same is true when conceiving and realizing strategic solutions. New strategies often do not follow from the facts, but need to be invented – they are not analyzed into existence, but need to be generated, if they are to be innovative and distinctive. Creative solutions do not follow from the dominant logic, but are the unexpected answers that emerge when the grip of the dominant logic is loosened.

Unfortunately, the conclusion must be that logical thinking and creative thinking are not only opposites, but that they are partially incompatible as well. They are based on methods that are at odds with one another. Strategizing executives would probably love to be fully logical and fully creative at the same time, but both require such a different mindset and range of cognitive skills that in practice it is very difficult to achieve both simultaneously. The demand for logic and creativity is not only contradictory for each individual, but also within teams, departments and the overall firm – while strategizing groups would like to be fully capable of logical and creative thinking, finding ways of incorporating both forms of strategic thinking into a workable strategy process is extremely challenging. Commonly, conflicting styles lead to conflicting people, and therefore a blend between the two is not that simple. It is for this reason that we speak of the *tension between logic and creativity* – the two demands on executives seem to be contradictory, yet both are required at the same time.

3.4 PERSPECTIVES ON STRATEGIC THINKING

While the need for both logical and creative thinking is clear, this does place strategists in a rather awkward position of needing to bring two partially contradictory forms of thinking together in one strategic reasoning process. Logical thinking helps to make the strategic reasoning process more *rational* – rigorous, comprehensive and consistent, instead of haphazard, fragmentary and ad hoc. Creative thinking, on the other hand, helps to make the strategic reasoning process more *generative* – producing more unorthodox insights, imaginative ideas and innovative solutions, instead of having a bland, conformist, and conservative output. In finding a balance between these opposite forms of thinking, the main question is whether the strategic reasoning process should actually be a predominantly rational affair, or a much more generative process. Is strategizing largely a rational activity, requiring logical thinking to be the dominant *modus operandi*, with occasional bits of creativity needed here and there to generate new ideas? Or is strategizing largely a generative activity, requiring creative thinking to be the standard operating procedure, with occasional bits of logical analysis needed here and there to weed out unfeasible ideas?

The answer to this question might be found in the strategic management literature. Yet, upon closer inspection, the opinions outlined in both the academic and popular literature show that the views vary widely among researchers and executives alike. A wide spectrum of differing perspectives can be recognized, each giving their own angle on how strategic thinking should use logic and creativity – sometimes explicitly mentioning the need for both, but more commonly making implicit assumptions about the role of logic and creativity in strategy processes.

As was outlined in chapter two, it is not the intention to summarize all of the 'schools of thought' on the topic of strategic thinking here. Instead, only the two most opposite points

of view will be presented in this section. These two poles are not necessarily the most popular points of view and at times they might seem somewhat extreme, arguing in terms of 'black-and-white' instead of shades of gray. Yet, as the two pure 'archetypes' they do form the ultimate pair for developing one dimension of a psychometric instrument.

At the one end of the spectrum, there are those who argue that strategic reasoning should be a predominantly rational process, requiring logic to be the main form of thinking in use. This point of view is referred to as the *rational reasoning perspective*. At the other pole, there are those who argue that the essence of strategic reasoning is the ability to break through orthodox beliefs and generate new insights and behaviors, requiring the extensive use of creativity. This point of view will be referred to as the *generative reasoning perspective*.

3.4.1 The Rational Reasoning Perspective

Strategists employing the rational reasoning perspective argue that strategic reasoning is predominantly a "logical activity" (Andrews, 1987). To deal with strategic problems the strategist must first consciously and thoroughly analyze the problem situation. Data must be gathered on all developments external to the organization, and this data must be processed to pinpoint the opportunities and threats in the organization's environment. Furthermore, the organization itself must be appraised, to uncover its strengths and weaknesses and to establish which resources are available. Once the problem has been defined, a number of alternative strategies can be identified by matching external opportunities to internal strengths. Then, the strategic options must be extensively screened, by evaluating them on a number of criteria, such as internal consistency, external consonance, competitive advantage, organizational feasibility, potential return and risks. The best strategy can be selected by comparing the scores of all options and determining the level of risk the strategist is willing to take. The chosen strategy can subsequently be implemented.

This type of intellectual effort requires well-developed analytical skills. Strategists must be able to rigorously, consistently and objectively comb through huge amounts of data, interpreting and combining findings to arrive at a rich picture of the current problem situation. Possible solutions require critical appraisal and all possible contingencies must be logically thought through. Advocates of the rational reasoning perspective argue that such reasoning strongly resembles the problem-solving approach of chess grand masters (Simon, 1987). They also thoroughly assess their competitive position, sift through a variety of options and calculate which course of action brings the best chances of success. Therefore, the reasoning processes of chess grand masters can be used as an analogy for what goes on in the mind of the strategist.

While depicted here as a purely step-by-step process of recognition, analysis, formulation and implementation, proponents of the rational reasoning perspective note that in reality strategists often have to backtrack and redo some of these steps, as new information becomes available or chosen strategies do not work out. Strategists attempt to be as comprehensive, consistent and rigorous as possible in their analyses and calculations, but of course they cannot know everything and their conclusions are not always perfect. Even with the most advanced forecasting techniques, not all developments can be foreseen. Even with state of the art market research, some trends can be missed. Even with cutting edge test marketing, scenario analyses, competitive simulations and net present value calculations, some selected strategies can turn out to be failures. Strategists are not all knowing, and do make mistakes – their rationality is limited by incomplete information and imperfect cognitive abilities. Yet, strategists try to be as rational as possible. Simon (1957) refers to this as *bounded rationality* – "people act intentionally rational, but only limitedly so". This coincides with Ambrose Bierce's famous sarcastic definition of logic as "the art of thinking

and reasoning in strict accordance with the limitations and incapacities of the human misunderstanding".

The (boundedly) rational strategist must sometimes improvise to make up for a lack of information, but will try to do this as logically as possible. Inferences and speculation will always be based on the facts as known. By articulating assumptions and explicitly stating the facts and arguments on which conclusions have been based, problem definitions and solutions can be debated within the firm, to confirm that they have been arrived at using sound reasoning. This strongly resembles the scientific method, in that hypotheses are formulated and tested as a means for obtaining new knowledge. Only by this consistent alignment of mental models with the empirical reality can the strategist avoid the danger of becoming stuck with an outdated cognitive map.

The alternative to this rational approach, it is often pointed out, is to be irrational and illogical, which surely cannot be a desirable alternative for the strategist. Non-rational reasoning comes in a variety of forms. For instance, people's thinking can be guided by their emotions. Feelings such as love, hate, guilt, regret, pride, anxiety, frustration, and embarrassment, can all cloud the strategist's understanding of a problem situation and the possible solutions. Adherents of the rational reasoning perspective do not dispute the importance of emotions – the purpose of an organization is often based on "personal values, aspirations and ideals", while the motivation to implement strategies is also rooted in human emotions. However, the actual determination of the optimal strategy is a "rational undertaking" *par excellence* (Andrews, 1987: 32).

Neither is intuitive thinking an appealing alternative for strategists. Of course, intuition can often be useful – decision rules based on extensive experience (cognitive heuristics) are often correct (even if they have been arrived at unconsciously) and they save time and effort. For example, Simon argues that even chess grand masters make many decisions intuitively, based on tacit rules of thumb, formulated through years of experience. Yet, intuitive judgments must be viewed with great suspicion, as they are difficult to verify and infamously unreliable (e.g. Hogarth, 1980; Schwenk, 1984). Where possible, intuitive thinking should be made explicit – the strategist's cognitive map should be captured on paper (e.g. Anthony et al., 1993; Eden, 1989), so that the reasoning of the strategist can be checked for logical inconsistencies.

Creative thinking is equally suspicious. Of course, creativity techniques can be beneficial for triggering some unexpected ideas. Whether it is by means of brainstorming, six thinking caps or action art, creative thinking can spark some unconventional thoughts. Even a rational scientist like Newton has remarked that "no great discovery was ever made without a bold guess". But this is usually where the usefulness of creativity ends, and to which it should be limited. In creative thinking anything goes and that can lead to anything between odd and ludicrous. To be able to sift the sane from the zany, logic is needed. To make sense of the multitude of new ideas the logical thinker must analyze and evaluate them. A more serious drawback is that in practice many 'creative ideas' are just someone's unsupported beliefs, dressed up to sound fashionable. 'Creative thinking' is often just an excuse for intellectual laziness.

In conclusion, advocates of the rational reasoning perspective argue that emotions, intuition, and creativity have a small place in the strategic reasoning process, but that logical thinking should be the dominant ingredient. It could be said that the rational reasoning process of the strategist strongly resembles that of the scientist. The scientific methods of research, analysis, theorizing and falsification are all directly applicable to the process of strategic reasoning – so much so, that the scientific method can be used as the benchmark for strategy development processes. Consequently, the best preparation for effective strategic reasoning would be to be trained in the scientific tradition.

3.4.2 The Generative Reasoning Perspective

Strategists taking a generative reasoning perspective are strongly at odds with the unassailable position given to logic in the rational reasoning perspective. They agree that logic is important, but stress that it is often more a hindrance than a help. The heavy emphasis placed on rationality can actually frustrate the main objective of strategic reasoning – to generate novel insights, new ways of defining problems and innovative solutions. Analysis can be a useful tool, but as the aim of strategic reasoning is to tear up outdated cognitive maps and to reinvent the future, creative thinking should be the driving force, and logical thinking a supporting means. For this reason, proponents of the generative reasoning perspective argue that strategists should avoid the false certainty projected by rational approaches to strategic reasoning, but should nurture creativity as their primary cognitive asset.

In the generative reasoning perspective emphasis is placed on the *wicked* nature of strategic problems (Rittel, 1972; Mason & Mitroff, 1981). It is argued that strategic problems cannot be easily and objectively defined, but that they are open to interpretation from a limitless variety of angles. The same is true for the possible solutions – there is no fixed set of problem solutions from which the strategist must select the best one. Defining and solving strategic problems, it is believed, is fundamentally a creative activity. As such, strategic reasoning has very little in common with the thought processes of the aforementioned chess grand master, as was presumed by the rationalists. Playing chess is a *tame* problem. The problem definition is clear and all options are known. In the average game of chess, consisting of 40 moves, 10120 possibilities have to be considered (Simon, 1972). This makes it a difficult game for humans to play, because of their limited computational capacities. Chess grand masters are better at making these calculations than other people and are particularly good at computational short cuts – recognizing which things to figure out and which not. However, even the best chess grand masters have been beaten at the game by highly logical computers with a superior number crunching capability. For the poor chess grand master, the rules of the game are fixed and there is little room for redefining the problem or introducing innovative approaches.

Engaging in business strategy is an entirely different matter. Strategic problems are wicked. Problem definitions are highly subjective and there are no fixed sets of solutions. It is therefore impossible to 'identify' the problem and 'calculate' an optimal solution. Opportunities and threats do not exist, waiting for the analyst to discover them. A strategist understands that a situation can be 'viewed' as an opportunity and 'believes' that certain factors can be threatening if not approached properly. Neither can strengths and weaknesses be objectively determined – a strategist can employ a company characteristic as a strength, but can also turn a unique company quality into a weakness by a lack of vision. Hence, doing a SWOT analysis (Strengths, Weaknesses, Opportunities and Threats) actually has little to do with logical analysis, but in reality is nothing less than a creative interpretation of a problem situation. Likewise, it is a fallacy to believe that strategic options follow more or less logically from the characteristics of the firm and its environment. Strategic options are not 'deduced from the facts' or selected from a 2x2 matrix, but are dreamt up. Strategists must be able to use their imaginations to generate previously unknown solutions. If more than one strategic option emerges from the mind of the strategist, these cannot be simply scored and ranked to choose the optimal one. Some analyses can be done, but ultimately the strategist will have to intuitively judge which vision for the future has the best chance of being created in reality.

Hence, a generative reasoning process is more than just brainstorming or having a wild idea every once in a while. In a generative reasoning process all strategic thinking

activities are oriented towards creating, instead of calculating – 'inventing' instead of 'finding' (Liedtka, 2000). This type of creative thinking is very hard work, as strategists must leave the intellectual safety of generally accepted concepts to explore new ideas, guided by little else than their intuition. They must be willing to operate without the security of a dominant logic; experimenting, testing, arguing, challenging, doubting and living amongst the rubble of demolished certainties, without having new certainties to give them shelter.

To proponents of the generative reasoning perspective, it is essential for strategists to have a slightly contrarian (Hurst, Rush and White, 1989), revolutionary predisposition (Hamel, 1996). Strategists must enjoy the challenge of thinking 'out of the box', even when this disrupts the status quo and is not much appreciated by those with their two feet (stuck) on the ground. As Picasso once remarked, "every act of creation is first of all an act of destruction" – strategists must enjoy the task of eroding old paradigms and confronting the defenders of these beliefs. And if some analyses can be done to support this effort, then they can serve a valuable purpose in the overall strategy process.

In conclusion, advocates of the generative reasoning perspective argue that the essence of strategic reasoning is the ability to creatively challenge "the tyranny of the given" (Kao, 1996) and to generate new and unique ways of understanding and doing things. As such, strategic reasoning closely resembles the frame-breaking behavior common in the arts. In fields such as painting, music, motion pictures, dancing and architecture, artists are propelled by the drive to challenge convention and to seek out innovative approaches. Many of their methods, such as brainstorming, experimentation, openness to intuition, and the use of metaphors, contradictions and tensions, are directly applicable to developing strategy. Consequently, the best preparation for strategic reasoning might actually be to be trained in the artistic tradition of iconoclastic creativity and mental flexibility.

TABLE 3.1
Rational reasoning versus generative reasoning perspective

	Rational Reasoning Perspective	**Generative Reasoning Perspective**
Emphasis on	Logic over creativity	Creativity over logic
Dominant cognitive style	Analytical	Intuitive
Thinking follows	Formal, fixed rules	Informal, variable rules
Nature of thinking	Deductive and computational	Inductive and imaginative
Direction of thinking	Vertical	Lateral
Problem defining seen as	Recognizing and analyzing activities	Reflecting and sense-making activities
Problem solving seen as	Formulation and execution activities	Imagining and doing activities
Value placed on	Consistency and rigor	Unorthodoxy and innovativeness
Assumption about reality	Objective, (partially) knowable	Subjective, (partially) creatable
Thinking hindered by	Incomplete information	Adherence to current cognitive map
Decisions based on	Calculation	Judgment
Metaphor	Strategy as science	Strategy as art

3.5 CONCLUSION

So, how do executives believe they should engage in strategic reasoning processes and how do they feel they should encourage fruitful strategic reasoning within their organizations?

Should executives view strategic reasoning primarily as a rational and deductive activity, or as a more imaginative and generative process? Should strategists train themselves to follow procedural rationality – rigorously analyzing problems using scientific methods and calculating the optimal course of action? Or should strategists practice to 'boldly go where no one has gone before' – redefining problems and inventing new courses of action? The main differences between the rational reasoning perspective and the generative reasoning perspective are outlined in table 3.1.

To measure what executives actually think about strategic thinking, these two opposite poles need to be translated into statements or items that can be judged by executives. In table 3.2, two sets of opposing policy statements have been formulated on the basis of the two strategy perspectives, which can be used as part of a psychometric instrument for capturing executives' strategy perspectives. These statements will be revisited in chapter 14.

TABLE 3.2
Statements representing the opposite perspectives

Rational Reasoning Perspective		**Generative Reasoning Perspective**	
1.1	To understand strategic issues, successful managers depend heavily on their analytical capabilities.	2.1	To understand strategic issues, successful managers depend heavily on their intuitive capabilities.
1.2	Formulating strategies requires strong logical thinking.	2.2	Formulating strategies requires strong creative thinking.
1.3	Managers should identify opportunities and threats in an objective way.	2.3	Managers should evaluate what should be seen as opportunities and threats based on their subjective judgment.
1.4	Managers should be highly rational in developing strategy.	2.4	Managers should be highly unorthodox in developing strategy.
1.5	Strategic decision-making should be based on insights generated through scientific research methods.	2.5	Strategic decision-making should be based on insights generated through experience.
1.6	Managers should review all possible options and calculate which one is most attractive.	2.6	Managers should creatively generate a few options and pick the one they feel is most attractive.
1.7	Strategies should be based on facts, not on impressions.	2.7	For strategists having a clear vision is more important than knowing the cold facts.
1.8	It is dangerous to take bold strategic action without extensive market analysis.	2.8	Bold new strategic ideas can easily be killed by colleagues wanting more analysis.
1.9	Generating new strategic options is easy, but evaluating which will be successful is hard.	2.9	Strategizing requires imagination.
1.10	The biggest problem in understanding a new strategic issue is usually a lack of relevant information.	2.10	The biggest problem in understanding a new strategic issue is usually people's existing opinions.

1.11	Strategizing should be driven by analysis and supported by creativity.	2.11	Strategizing should be driven by creativity and supported by analysis.
1.12	The difference between a good and an excellent manager is the discipline to rigorously diagnose each new strategic issue.	2.12	The difference between a good and an excellent manager is the imagination to see opportunities before they become obvious.

Chapter 4

STRATEGY FORMATION

4.1 INTRODUCTION

There are many definitions of strategy and many ideas of how strategies should be made. In the introduction of the strategy process section of this book, our definition of strategy was kept basic, to encompass the large majority of these different views – *strategy is a course of action for achieving an organization's purpose*. Taking this definition as a starting point, a major distinction can be observed between people who see strategy as an *intended* course of action and those who regard strategy as a *realized* course of action. Mintzberg and Waters (1985) have remarked that these two views of strategy are not contradictory, but complementary. *Intended strategy* is what individuals or organizations formulate prior to action (a *pattern of decisions*), while *realized strategy* refers to the strategic behavior exhibited in practice (a *pattern of actions*). Of course, not all behavior is necessarily strategic – if the actions do not follow a pattern directed at achieving the organization's purpose, it does not qualify as strategy.

The process by which an intended strategy is created is called *strategy formulation*. Normally strategy formulation is followed by strategy implementation. However, intentions sometimes end up not being put into practice – plans can be changed or cancelled along the way. The process by which a realized strategy is formed is called *strategy formation*. What is realized might be based on an intended strategy, but it can also be the result of unplanned actions as time goes by. In other words, the process of strategy formation encompasses both formulation and action. Strategy formation is the entire process leading to strategic behavior in practice.

For executives with the responsibility for getting results, it would be too limited to only look at the process of strategy formulation and to worry about implementation at a later moment. Executives must ask themselves how the entire process of strategy formation should be managed to get their organizations to act strategically. Who should be involved, which activities need to be undertaken and to what extent can strategy be formulated in advance? In short, for executives finding a way to realize a strategic pattern of actions is the key issue.

In this chapter, the issue of realizing strategy will be the central focus of discussion. The intention is to describe the main elements involved in this issue, leading up to a discussion of the differing perspectives on strategy formation. As before, the chapter will be concluded with a list of opposite statements representing the two opposing views on this topic.

4.2 THE ISSUE OF REALIZED STRATEGY

Getting an organization to exhibit strategic behavior is what all strategists aim to achieve. Preparing detailed analyses, drawing up plans, making extensive slide presentations and holding long meetings might all be necessary means to achieve this end, but ultimately it is the organization's actions directed at the market place that count. The key issue facing executives is, therefore, how this strategic behavior can be attained. How can a successful course of action be realized in practice?

To answer these questions, it is first necessary to gain a deeper understanding of the 'who' and 'what' of strategy formation – what type of *strategy formation activities* need to be carried out and 'what type of *strategy formation roles* need to be filled by whom'. Both questions will be examined in the following sections.

4.2.1 Strategy Formation Activities

In chapter 3 it was argued that the process of strategic reasoning could be divided into four general categories of activities – identifying, diagnosing, conceiving and realizing. These strategic problem solving activities, taking place in the mind of the strategist, are in essence the same as those encountered in organizations at large. Organizations also need to 'solve strategic problems' and achieve at successful pattern of actions. The difference is that the organizational context – involving many more people, with different experiences, perspectives, personalities, interests and values – leads to different requirements for structuring the process. Getting people within an organization to exhibit strategic behavior necessitates the exchange of information and ideas, decision-making procedures, communication channels, the allocation of resources and the coordination of actions.

When translated to an organizational environment, the four general elements of the strategic reasoning process can be further divided into the eight basic building blocks of the strategy formation process, as illustrated in figure 4.1.

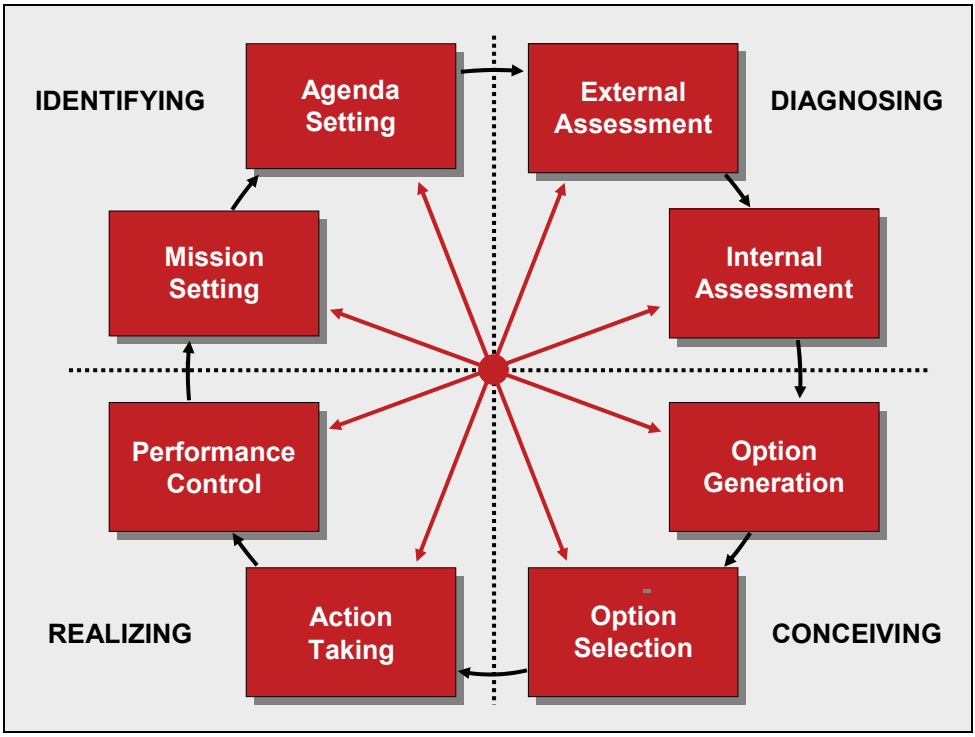
Strategic Issue Identification Activities

If a strategy is seen as an answer to a perceived 'problem' or 'issue', executives must have some idea of what the problem is. 'Identifying' refers to all activities contributing to a better understanding of what should be viewed as problematic – what constitutes an important opportunity or threat that must be attended to if the organization's purpose is to be met. The key activities here are:

- *Mission setting*. What the organization sees as an issue will in part depend on its *mission* – the enduring set of fundamental principles outlining what purpose the organization wishes to serve, in what domain and under which conditions. A company's mission, encompassing its core values, beliefs, business definition and purpose, forms the basis of the organization's identity and sets the basic conditions under which the organization wishes to function. Where a company has a clearly developed mission, shared by all key players in the organization, this will strongly color its filtering of strategic issues. The mission does not necessarily have to be formally captured in a mission statement, but can be informally internalized as a part of the company culture.
- *Agenda setting*. Besides the organizational mission as screening mechanism, many other factors can contribute to the focusing of organizational attention on specific strategic issues. For instance, the cognitive map of each strategist will influence which environmental and organizational developments are identified as issues. Furthermore,

group culture will have an impact on which issues are discussable, which are off-limits to open debate, and under what conditions discussions should take place. Getting people to sit up and take notice will also depend on each actor's communication and political skills, as well as their sources of power, both formal and informal. Together these attention-focusing factors determine which issues are picked up on the 'organizational radar screen', discussed and looked into further. It is said that these issues make it on to the *organizational agenda*, while all other potential problems receive less or no attention.

FIGURE 4.1
The main strategy formation activities



Strategic Issue Diagnosis Activities

To come to grips with a 'problem' or 'issue', executives must try to comprehend its structure and its underlying causes. Especially since most strategic issues are not simple and straightforward, but complex and messy, it is very important to gain a deeper understanding of 'what is going on' – which 'variables' are there and how are they inter-related? This part of the strategy formation processes can be divided into the following activities:

- *External assessment*. The activity of investigating the structure and dynamics of the environment surrounding the organization is commonly referred to as an external assessment or analysis. Typically such a diagnosis of the outside world includes both a scan of the direct (market) environment and the broader (contextual) environment. In both cases the analyst wants to move beyond observed behavior, to understand 'what makes

the system tick'. What is the underlying structure of the industry and the market that is conditioning each party's behavior? And what are the characteristics and strategies of each important actor, including customers, competitors, suppliers, distributors, unions, governments and financiers? Furthermore, only understanding the current state of affairs is generally insufficient, making it necessary to analyze in which direction external circumstances are developing. Which trends can be discerned, which factors seem to be driving the industry and market dynamics, and can these be used to forecast or estimate future developments?

- *Internal assessment*. The activity of investigating the capabilities and functioning of the organization is commonly referred to as an internal assessment or analysis. Typically such a diagnosis of the inner workings of the organization includes an assessment of the business system with which the firm creates value and the organizational system that has been developed to facilitate the business system. When dissecting the business system, attention is directed at understanding the resources and chain of value-adding activities that enable the firm to offer a set of products and services. To gain insight into the functioning of the organizational system, it is necessary to determine the structure of the organization, the processes used to control and coordinate the various people and units, and the organizational culture. In all these analyses a mere snapshot of the firm is generally insufficient – the direction in which the organization is developing must also be examined, including a consideration of the main change drivers and change inhibitors. Furthermore, for strategy making it is important to compare how the organization scores on all aforementioned factors compared to rival firms.

Strategy Conception Activities

To deal with a strategic 'problem' or 'issue', executives must come up with a potential solution. A course of action must be found that will allow the organization to relate itself to the environment in such a way that it will be able to achieve its purpose. 'Conceiving' refers to all activities that contribute to determining which course of action should be pursued. In this part of the strategy formation process, the following categories of activities can be discerned:

- *Option generation*. Creating potential strategies is what option generation is about. Sometimes executives will immediately jump at one specific course of action, limiting their strategic option generation activities to only one prime candidate. However, many executives will be inclined to explore a number of different avenues for approaching a specific strategic issue, thereby generating multiple strategic options. Each option can range in detail from a general outline of actions to be taken, up until a full blown strategic plan, specifying goals, actions, tasks, responsibilities, resource allocation, milestones and performance measures. Which questions each strategic option should address, is the main focus of discussion in the strategy content section of this book.
- *Option selection*. The potential 'solutions' formulated by executives must be evaluated to decide whether they should be acted upon. It must be weighed whether the strategic option generated will actually lead to the results required and then it must be concluded whether to act accordingly. Especially where two or more strategic options have come forward, executives need to judge which one of them is most attractive to act on. This screening of strategic options is done on the basis of evaluation criteria, for instance perceived risk, anticipated benefits, the organization's capacity to execute, expected competitor reactions and follow-up possibilities. Sometimes a number of the evaluation criteria used are formally articulated, but generally the evaluation will at least be partially

based on the experience and judgment of the decision-makers involved. Together, these activities of assessing strategic options and arriving at a selected course of action are also referred to as the *strategic decision-making*.

Strategy Realization Activities

A strategic 'problem' or 'issue' can only be resolved if concrete actions are undertaken that achieve results. Executives must make adjustments to their business or organizational system, or initiate actions in the market – they must not only think, talk and decide, but also do, to have a tangible impact. 'Realizing' refers to all these practical actions performed by the organization. If there is a clear pattern to these actions, it can be said that there is a realized strategy. In this part of the strategy formation process, the following activities can be distinguished:

- *Action taking*. A potential problem solution must be carried out – intended actions must be implemented to become realized actions. This performing of tangible actions encompasses all aspects of a firm's functioning. All hands-on activities, more commonly referred to as 'work', fall into this category – everything from setting up and operating the business system, to getting the organizational system to function on a day-to-day basis.
- *Performance control*. Executives must also measure whether the actions being taken in the organization are in line with the option selected and whether the results are in line with what was anticipated. This reflection on the actions being undertaken can be informal, and even unconscious, but it can be formally structured into a performance monitoring and measuring system as well. Such performance measurement can be employed to assess how well certain people and organizational units are doing vis-à-vis set objectives. Incentives can be linked to achieving targets, and corrective steps can be taken to ensure conformance to an intended course of action. However, deviation from the intended strategy can also be a signal to reevaluate the original solution or even to reevaluate the problem definition itself. An important issue when engaging in performance control is the determination of which performance indicators will be used – micro measuring all aspects of the organization's functioning is generally much too unwieldy and time-consuming. Some executives prefer a few simple measures, sometimes quantitative (e.g. financial indicators), sometimes qualitative (e.g. are clients satisfied?), while others prefer more extensive and varied measures, such as a balanced scorecard (Kaplan and Norton, 2001; Simons, 1995).

Note that these strategy formation activities have not been labeled 'steps' or 'phases'. While these eight activities have been presented in an order that seems to suggest a logical sequence of steps, it remains to be seen in which order they should be carried out in practice. In figure 4.1 the black arrows represent the logical clockwise sequence, similar to the rational reasoning process discussed in chapter 3. The red arrows represent the possibility to jump back and forth between the strategy formation activities, similar to the irregular pattern exhibited in the generative reasoning process in chapter 3.

4.2.2 Strategy Formation Roles

In all strategy formation processes the abovementioned activities need to be carried out. However, there can be significant differences in who carries out which activities. Roles in the strategy formation process can vary as tasks and responsibilities are divided in alternative

ways. The main variations are due to a different division of labor along the following dimensions:

- *Top vs. middle vs. bottom roles*. Strategy formation activities are rarely the exclusive domain of the CEO. Only in the most extreme cases will a CEO run a 'one-man show', carrying out all activities except realization. Usually some activities will be divided among members of the top management team, while other activities will be pushed further down to divisional executives, business unit executives, and department executives (e.g. Bourgeois & Brodwin, 1983; Floyd & Wooldridge, 2000). Some activities might be delegated or carried out together with people even further down the hierarchy, including employees on the work floor. For activities such as external and internal assessment and option generation it is more common to see participation by people lower in the organization, while top management generally retains the responsibility for selecting, or at least deciding on, which strategic option to follow. The recurrent theme in this question of the vertical division of activities is how far down activities can and should be pushed – how much empowerment of middle and lower levels is beneficial for the organization?
- *Line vs. staff roles*. By definition line executives are responsible for realization of strategic options pertaining to the primary process of the organization. Because they are responsible for achieving results, they are often also given the responsibility to participate in conceiving the strategies they will have to realize. Potentially, line executives can carry out all strategy formation activities without staff support. However, many organizations do have staff members involved in the strategy formation process. Important staff input can come from all existing departments, while some organizations institute special strategy departments to take care of strategy formation activities. The responsibilities of such strategy departments can vary from general process facilitation, to process ownership to full responsibility for strategy formulation.
- *Internal vs. external roles*. Strategy formation activities are generally seen as an important part of every executive's portfolio of tasks. Yet, not all activities need to be carried out by members of the organization, but can be 'outsourced' to outsiders (e.g. Robinson, 1982). It is not uncommon for firms to hire external agencies to perform diagnosis activities or to facilitate the strategy formation process in general. Some organizations have external consultants engaged in all aspects of the process, even to the extent that the outside agency has the final responsibility for drawing up the strategic options.

In organizing the strategy formation process, a key question is how formalized the assignment of activities to the various potential process participants should be. The advantage of formalization is that it structures and disciplines the strategy formation process (e.g. Chakravarthy & Lorange, 1991; Hax & Maljuf, 1984). Especially in large organizations, where many people are involved, it can be valuable to keep the process tightly organized. Formalization can be achieved by the establishment of a strategic planning system. In such a system, strategy formation steps can be scheduled, tasks can be specified, responsibilities can be assigned, decision-making authority can be clarified, budgets can be allocated and evaluation mechanisms can be put in place. Generally, having unambiguous responsibilities, clearer accountability and stricter review of performance will lead to a better functioning organization. The added benefit of formalization is that it gives top management more control over the organization, as all major changes must be part of approved plans and the implementation of plans is checked.

Yet, there is a potential danger in using formal planning systems as a means to make strategy. Formalization strongly emphasizes those aspects which can be neatly organized such as meetings, writing reports, giving presentations, making decisions, allocating resources and reviewing progress, while having difficulty with essential strategy making activities that are difficult to capture in procedures. Important aspects such as creating new insights, learning, innovation, building political support and entrepreneurship can be side-lined or crushed if rote bureaucratic mechanisms are used to produce strategy. Moreover, planning bureaucracies, once established, can come to live a life of their own, creating rules, regulations, procedures, checks, paperwork, schedules, deadlines, and double-checks, making the system inflexible, unresponsive, ineffective and demotivating (e.g. Marx, 1991; Mintzberg, 1994).

4.3 THE TENSION BETWEEN DELIBERATENESS AND EMERGENCE

Strategy has to do with the future. And the future is unknown. This makes strategy a fascinating, yet frustrating, topic. Fascinating because the future can still be shaped and strategy can be used to achieve this aim. Frustrating because the future is unpredictable, undermining the best of intentions, thus demanding flexibility and adaptability. To executives, the idea of creating the future is highly appealing, yet the prospect of sailing for *terra incognita* without a compass is unsettling at best.

This duality of wanting to *intentionally design* the future, while needing to *gradually explore, learn and adapt* to an unfolding reality, is the tension central to the topic of strategy formation. It is the conflicting need to *figure things out* in advance, versus the need to *find things out* along the way. One the one hand, executives would like to forecast the future and to orchestrate plans to prepare for it. Yet, on the other hand, executives understand that experimentation, learning and flexibility are needed to deal with the fundamental unpredictability of future events.

In their influential article, *Of Strategies: Deliberate and Emergent*, Mintzberg and Waters (1985) were one of the first to explicitly focus on this tension. They argued that a distinction should be made between deliberate and emergent strategy (see figure 4.2). Where realized strategies were fully intended, one can speak of *deliberate strategy*. However, realized strategies can also come about "despite, or in the absence of, intentions", which Mintzberg and Waters labeled *emergent strategy*. In their view, few strategies were purely deliberate or emergent, but usually a mix between the two.

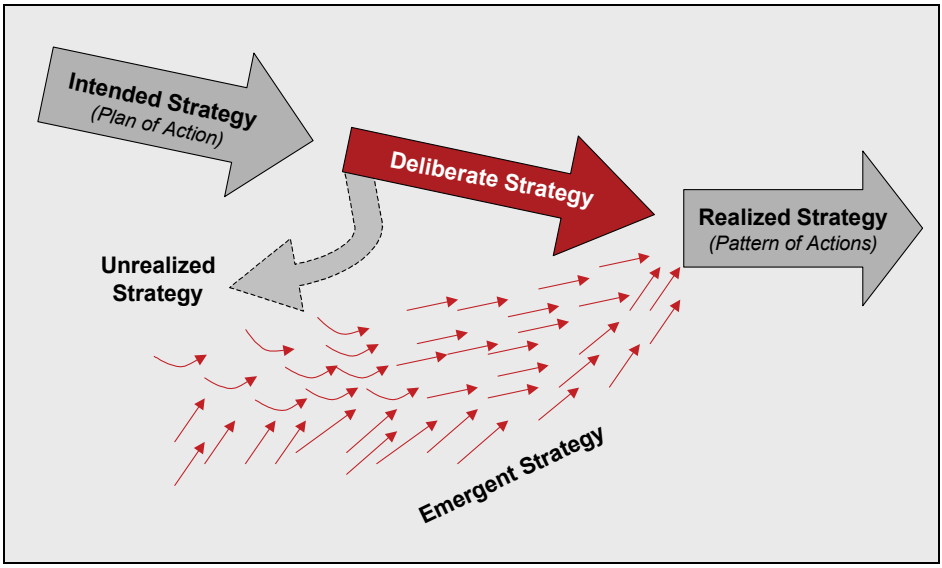
Hence, in realizing strategic behavior executives need to blend the conflicting demands for deliberate strategizing and strategy emergence. In the following sections both sides of this tension between deliberateness and emergence will be examined further.

4.3.1 The Demand for Deliberate Strategizing

Deliberateness refers to the quality of acting intentionally. When people act deliberately, they 'think' before they 'do'. They make a plan and then implement the plan. A plan is an intended course of action, stipulating which measures a person or organization proposes to take. In common usage, plans are assumed to be articulated (made explicit) and documented (written down), although strictly speaking this is not necessary to qualify as a plan.

As an intended course of action, a plan is a means towards an end. A plan details which actions will be undertaken to reach a particular objective. In practice, however, plans can exist without explicit objectives. In such cases, the objectives are implicitly wrapped up in the plan – the plan incorporates both ends and means.

FIGURE 4.2
Deliberate and emergent strategy (Mintzberg and Waters, 1985)



All organizations need to plan. At the operational level, most firms will have some degree of production planning, resource planning, manpower planning and financial planning, to name just a few. When it comes to strategic behavior, there are also a number of prominent advantages that strongly pressure organizations to engage in deliberate strategizing:

- *Direction*. Plans give organizations a sense of direction. Without objectives and plans, organizations would be adrift. If organizations did not decide where they wanted to go, any direction and any activity would be fine. People in organizations would not know what they were working towards and therefore would not be able to judge what constitutes effective behavior (e.g. Ansoff, 1965; Chakravarthy and Lorange, 1991).
- *Commitment*. Plans enable early commitment to a course of action. By setting objectives and drawing up a plan to accomplish these, organizations can invest resources, train people, build up production capacity and take a clear position within their environment. Plans allow organizations to mobilize themselves and to dare to take actions that are difficult to reverse and have a long payback period (e.g. Ghemawat, 1991; Marx, 1991).
- *Coordination*. Plans have the benefit of coordinating all strategic initiatives within an organization into a single cohesive pattern. An organization-wide master plan can ensure that differences of opinion are ironed out and one consistent course of action is followed throughout the entire organization, avoiding overlapping, conflicting and contradictory behavior (e.g. Ackoff, 1980; Andrews, 1987).
- *Optimization*. Plans also facilitate optimal resource allocation. Drawing up a plan disciplines strategizing executives to explicitly consider all available information and consciously evaluate all available options. This allows executives to choose the optimal course of action, before committing resources. Moreover, documented plans permit corporate level executives to compare the courses of action proposed by their various

business units and to allocate scarce resources to the most promising initiatives (e.g. Ansoff and McDonnell, 1990; Bower, 1970).

- *Programming*. Last, but not least, plans are a means for programming all organizational activities in advance. Having detailed plans allows organizations to be run with the clockwork precision, reliability and efficiency of a machine. Activities that might otherwise be plagued by poor organization, inconsistencies, redundant routines, random behavior, helter-skelter fire fighting and chaos, can be programmed and controlled if plans are drawn up (e.g. Grinyer et al., 1986; Steiner, 1979).

Given these major advantages, it can come as no surprise that organizations feel the pressure to engage in deliberate strategizing. Deliberateness is a quality that the strategy formation process cannot do without.

4.3.2 The Demand for Strategy Emergence

Emergence is the process of becoming apparent. A strategy emerges when it comes into being along the way. Where there are no plans, or people divert from their plans, but their behavior is still strategic, it can be said that the strategy is emergent – gradually shaped during an iterative process of 'thinking' and 'doing'.

Emergent strategy differs from ad hoc behavior in that a coherent pattern of action does evolve. While executives may have no prior intentions, they can explore, learn, and piece together a consistent set of behaviors over time. Such an approach of letting strategy emerge has a number of major advantages that organizations also need to consider:

- *Opportunism*. As the future is unknown and therefore unpredictable, organizations must retain enough mental freedom to grab unforeseen opportunities as they emerge. Organizations must keep an open mind to sense where positive and negative circumstances are unfolding, so that they can respond rapidly to these new conditions – proactively riding the wave of opportunity, using the momentum in the environment and/or the organization to their advantage. This ability to 'play the field' is an important factor in effective strategy formation (e.g. Quinn, 2002; Stacey, 2001).
- *Flexibility*. Not only must executives keep an open mind, they must keep their options open as well, by not unnecessarily committing themselves to irreversible actions and investments. Letting strategy emerge means not prematurely locking the organization in to a preset course of action, but keeping alternatives open for as long as practically possible. And where commitments must to be made, executives need to select '*robust'* options, which permit a lot of leeway to shift along with unfolding events. This pressure to remain flexible is also an important demand on strategizing executives (e.g. Beinhocker, 1999; Evans, 1991).
- *Learning*. Often, the best way to find out what works is to give it a try – to act before you know. Letting strategy emerge is based on the same principle, that to learn what will be successful in the market must be discovered by experimentation, pilot projects, trial runs and gradual steps. Through the feedback obtained by hands-on 'doing', a rich insight can grow into what really works. As Thomas Alva Edison is well known for remarking, invention is 5% inspiration and 95% perspiration, and this is probably equally true for 'inventing the corporate future'. Learning is hard work, but it is an essential part of strategy formation (e.g. Pascale, 1984; Mintzberg, 1994).

- *Entrepreneurship*. Building on the previous point, often the best way to find out what works is to let various people give it a try – to tap into the entrepreneurial spirits within the organization. Different people in the organization will have different strategic ideas and many of them will feel passionately about proving that their idea 'can fly'. By providing individuals, teams and/or entire units with a measure of autonomy to pursue innovative initiatives, firms can use the energy of *intrapreneurs* within the organization, instead of forcing them to conform or start on their own (e.g. Amabile, 1998; Pinchot, 1985). As true incubators, firms can facilitate various divergent projects simultaneously, increasing commitment or closing them down as their potential unfolds (e.g. Burgelman, 1983, 1991; Lyon, Lumpkin and Dess, 2000).
- *Support.* A major shift in strategy generally requires a major shift in the political and cultural landscape of an organization – careers will be affected, vested departmental interests will be impacted and cultural values and beliefs will be challenged. Rarely can such shifts be imposed top-down by decree. Getting things done in organizations includes building coalitions, blocking rivals, convincing wavering parties, confronting opposing ideas and letting things 'sink in', all with the intention of gradually building enough support to move forward. Yet, finding out where enough support can be mustered to move forward, and where side steps or even reversals are needed, is an on-going process and cannot be predicted in advance. Hence, strategizing executives must understand the internal political and cultural dynamics of their organizations and pragmatically shape strategy depending on what is feasible, not on what is ideal (e.g. Allison, 1971; Quinn, 1980).

Each of these points seems to be the opposite counterpart of the advantages of deliberate strategizing – while deliberateness creates commitment, emergence allows for flexibility; while deliberateness gives direction, emergence allows for opportunism; while deliberateness facilitates fixed programming, emergence allows for on-going learning. This places executives in a paradoxical position. While both deliberate strategizing and strategy emergence seem to have advantageous characteristics, they are each other's opposites and are to a certain extent contradictory – a firm cannot be fully committed to detailed and coordinated long term plans, while simultaneously adapting itself flexibly and opportunistically to unfolding circumstances, ongoing learning and unpredictable political and cultural processes. With two conflicting demands placed on the strategy formation process at the same time, executives need to choose one at the expense of the other, trying to strike the best possible balance between deliberateness and emergence.

4.4 PERSPECTIVES ON STRATEGY FORMATION

In Hollywood, most directors don't start shooting a movie until the script and storyboard are entirely completed – the script details each actors words, expression and gestures, while the storyboard graphically depicts how each scene will look in terms of camera angles, lighting, backgrounds and stage props. Together they form a master plan, representing the initial intentions of the director. However, it frequently happens that a director has a new insight, and changes are made to the script or storyboard "on the fly". Yet, on the whole, most 'realized movies' are fairly close to directors' intentions.

For some directors this is madness. They might have a movie idea, but in their mind's eye they cannot yet picture it in its final form. Some elements might have already crystallized in their thoughts, but other parts of the film can only be worked out once the cameras are rolling and the actors start playing their roles. In this way, directors can let movies emerge

without having a detailed script or storyboard in advance to guide them. It can be said that such movies are shaped by gradually blending together a number of small intentional steps over a long period of time, instead of taking one big step of making a master plan and implementing it. This approach of taking many small steps is called *incrementalism*.

The question is how this works for executives making strategy. Is it best to deliberately draw up a storyboard for the firm and trust that the 'actors' are flexible enough to adapt to minor changes in the script as time goes by? Or is the idea of a master plan misplaced, and are the best results achieved by developing a strategy incrementally, emergently responding to opportunities and threats as they unfold along the way? In short, how should strategizing executives strike a balance between deliberateness and emergence?

Views on how to strike a balance seem to differ strongly, both in academia and among executives. In both the academic journals and the practitioner-oriented literature, a wide spectrum of views can be observed on how executives should engage in strategy formation. While some writers suggest that there might be different styles in balancing deliberateness and emergence (e.g. Chaffee, 1985; Hart, 1992), most seem intent on offering 'the best way' to approach the issue of strategy formation – which often differs significantly from 'the best way' advised by others.

Therefore, this seems to be a fundamental dimension along which views differ, making it the second dimension which is potentially usable for measuring different strategy perspectives. At one pole we find those executives and theorists who strongly emphasize deliberateness over emergence. They argue that organizations should strive to make strategy in a highly deliberate manner, by first explicitly formulating comprehensive plans, and only then implementing them. In accordance with common usage, this point of view shall be referred to as the *strategic planning perspective*. At the other pole are those who strongly emphasize emergence of deliberateness, arguing that in reality most new strategies emerge over time and that organizations should facilitate this messy, fragmented, piecemeal strategy formation process. This point of view shall be referred to as the *strategic incrementalism perspective*. Both will be described in more detail below.

4.4.1 The Strategic Planning Perspective

Advocates of the strategic planning perspective argue that strategies should be deliberately planned and executed. In their view, anything that emerges unplanned is not really strategy. A successful pattern of action that was not intended can not be called strategy, but should be seen for what it is – brilliant improvisation or just plain luck (Andrews, 1987). However, executives cannot afford to count on their good fortune or skill at muddling through. They must put time and effort into consciously formulating an explicit plan, making use of all available information and weighing all of the strategic alternatives. Tough decisions need to be made and priorities need to be set, before action is taken. 'Think before you act' is the strategic planning perspective's motto. But once a strategic plan has been adopted, action should be swift, efficient and controlled. Implementation must be secured by detailing the activities to be undertaken, assigning responsibilities to executives and holding them accountable for achieving results (e.g. Ansoff and McDonnell, 1990; Chakravarthy and Lorange, 1991).

Hence, in the strategic planning perspective, strategies are intentionally designed, much as an engineer designs a bridge. Building a bridge requires a long formulation phase, including extensive analysis of the situation, the drawing up of a number of rough designs, evaluation of these alternatives, choice of a preferred design, and further detailing in the form of a blueprint. Only after the design phase has been completed, do the construction companies take over and build according to plan. Characteristic of such a planning approach

to producing bridges and strategies is that the entire process can be disassembled into a number of distinct steps, that need to be carried out in a sequential and orderly manner. Only by going through these steps in a conscious and structured manner will the best results be obtained (e.g. Armstrong, 1982; Powell, 1992).

For advocates of the strategic planning perspective, the whole purpose of strategizing is to give organizations direction, instead of letting them drift. Organizations cannot act rationally without intentions – if you do not know where you are going, any behavior is fine, which soon degenerates into *muddling through* (e.g. Ansoff, 1991; Steiner, 1979). By first setting a goal and then choosing a strategy to get there, organizations can get 'organized'. Executives can select actions that are efficient and effective within the context of the strategy. A structure can be chosen, tasks can be assigned, responsibilities can be divided, budgets can be allotted, and targets can be set. Not unimportantly, a control system can be created to measure results in comparison to the plan, so that corrective action can be taken.

Another advantage of the planning approach to strategy formation is that it allows for the *formalization* and *differentiation* of strategy tasks. Because of its highly structured and sequential nature, strategic planning lends itself well to formalization. The steps of the strategic planning approach can be captured in planning systems (e.g. Kukalis, 1991; Lorange and Vancil, 1977), and procedures can be developed to further enhance and organize the strategy formation process. In such strategic planning systems, not all elements of strategy formation need to be carried out by one and the same person, but can be divided among a number of people. The most important division of labor is often between those formulating the plans and those implementing them. In many large companies the executives proposing the plans are also the ones implementing them, but deciding on the plans is passed up to a higher level. Often other tasks are spun off as well, or shared with others, such as diagnosis (strategy department or external consultants), implementation (staff departments) and evaluation (corporate planner and controller). Such task differentiation and specialization, it is argued, can lead to a better use of management talent, much as the division of labor has improved the field of production. At the same, having a formalized system allows for sufficient coordination and mutual adjustment, to make ensure that all specialized elements are integrated back into a consistent organization-wide strategy (e.g. Grinyer et al., 1986; Jelinek, 1979).

Last, but not least, an advantage of strategic planning is that it encourages long-term thinking and commitment. 'Muddling through' is short-term oriented, dealing with issues of strategic importance as they come up or as a crisis develops. Strategic planning, on the other hand, directs attention to the future. Executives making strategic plans have to take a more long-term view and are stimulated to prepare for, or even create, the future (Ackoff, 1980). Instead of just focusing on small steps, planning challenges executives to define a desirable future and to work towards it. Instead of wavering and opportunism, strategic planning commits the organization to a course of action and allows for investments to be made at the present that may only pay off in the long run (e.g. Ansoff, 1991; Miller and Cardinal, 1994).

One of the difficulties of strategic planning, advocates of this perspective will readily admit, is that plans will always be based on assumptions about how future events will unfold. Plans require forecasts. And as the Danish physicist Niels Bohr once joked, "prediction is very difficult, especially about the future." Even enthusiastic planners acknowledge that forecasts will be inaccurate. As Makridakis, the most prolific writer on the topic of forecasting, writes (1990: 66), "the future can be predicted only by extrapolating from the past, yet it is fairly certain that the future will be different from the past." Consequently, it is clear that rigid long-range plans based on such unreliable forecasts would amount to nothing less than Russian roulette. Most proponents of the strategic planning perspective therefore caution for overly deterministic plans. Some argue in favor of *contingency planning*, whereby

a number of alternative plans are held in reserve in case key variables in the environment suddenly change. These contingency plans are commonly based on different future *scenarios* (Van der Heijden, 2002; Wilson, 2000). Others argue that organizations should stage regular reviews, and realign the strategic plans to match the altered circumstances. This is usually accomplished by going through the planning cycle every year, and adapting strategic plans to fit with the new forecasts.

The strategic planning perspective shares many of the assumptions underlying the rational reasoning perspective discussed in chapter 3. Both perspectives value systematic, orderly, consistent, logical reasoning and assume that humans are capable of forming a fairly good understanding of reality. And both are based on a calculative and optimizing view of strategy making. It is, therefore, not surprising that many executives who are rationally inclined also exhibit a distinct preference for the strategic planning perspective.

4.4.2 The Strategic Incrementalism Perspective

To advocates of the strategic incrementalism perspective, the planners' faith in deliberateness is misplaced and counterproductive. In reality, incrementalists argue, new strategies largely emerge over time, as executives proactively piece together a viable course of action or reactively adapt to unfolding circumstances. The strategy formation process is not about rigidly *setting the course of action* in advance, but about flexibly *shaping the course of action* by gradually blending together initiatives into a coherent pattern of actions. Making strategy involves sense making, reflecting, learning, envisioning, experimenting and changing the organization, which cannot be neatly organized and programmed. Strategy formation is messy, fragmented, and piecemeal – much more like the unstructured and unpredictable processes of exploration and invention, than like the orderly processes of design and production (e.g. Mintzberg, 1990; Quinn, 1980).

Yet proponents of the strategic planning perspective prefer to press strategy formation into an orderly, mechanistic straightjacket. Strategies must be intentionally designed and executed. According to strategic incrementalists, this excessive emphasis on deliberateness is due to planners' obsession with rationality and control (e.g. Wildavsky, 1979; Mintzberg, 1993). Planners are often compulsive in their desire for order, predictability and efficiency. It is the intention of strategic planning to predict, analyze, optimize and program – to deliberately fine-tune and control the organization's future behavior. For them, 'to manage' is 'to control' and therefore only deliberate patterns of action constitute good strategic management.

Incrementalists do not question the value of planning and control as a means for managing some organizational processes, but point out that strategy formation is not one of them. In general, planning and control are valuable for routine activities that need to be efficiently organized (e.g. production or finance). But planning is less suitable for non-routine activities – that is, for doing new things. Planning is not appropriate for *innovation* (e.g. Hamel, 1996; Kanter, 2002). Just as R&D departments cannot plan the invention of new products, executives cannot plan the development of new strategies. Innovation, whether in products or strategies, is not a process that can be neatly structured and controlled. Novel insights and creative ideas cannot be generated on demand, but surface at unexpected moments, often in unexpected places. Nor are new ideas born full-grown, ready to be evaluated and implemented. In reality, innovation requires brooding, tinkering, experimentation, testing and patience, as new ideas grow and take shape. Throughout the innovation process it remains unclear which ideas might evolve into blockbuster strategies and which will turn out to be miserable disappointments. No one can objectively determine ahead of time which strategic initiatives will 'fly' and which will 'crash'. Therefore,

executives engaged in the formation of new strategies must move incrementally, letting novel ideas crystallize over time, and increase commitment as ideas gradually prove their viability in practice. This demands that executives behave not as planners, but as *inventors* – searching, experimenting, learning, doubting, and avoiding premature closure and lock-in to one course of action (e.g. Stacey, 1993; Beinhocker, 1999).

Recognizing that strategy formation is essentially an innovation process has more consequences. Innovation is inherently subversive, rebelling against the status quo and challenging those who are emotionally, intellectually or politically wedded to the current state of affairs. Creating new strategies involves confronting people's cognitive maps, questioning the organizational culture, threatening individuals' current interests and disrupting the distribution of power within the organization (e.g. Hamel, 1996; Johnson, 1988). None of these processes can be conducted in an orderly fashion, let alone be incorporated into a planning system. Changing people's cognitive maps requires complex processes of unlearning and learning. Cultural and political changes are also difficult processes to program. Even for the most powerful CEO, managing cognitive, cultural and political changes is not a matter of deliberate control, but of incremental shaping. Less powerful executives will have even a weaker grip on the unfolding cognitive, cultural and political reality in their organization, and therefore will be even less able to plan. In short, executives who understand that strategy formation is essentially a disruptive process of organizational change will move incrementally, gradually molding the organization into a satisfactory form. This demands that executives behave not as commanders, but as *organizational developers* – questioning assumptions, challenging ideas, getting points on the strategic agenda, encouraging learning, championing new initiatives, supporting change and building political support.

Incrementalists point out that planning is particularly inappropriate when dealing with *wicked problems*. While solving tame problems can often be planned and controlled, strategizing executives rarely have the luxury of using generic solutions to fix clearly recognizable strategic problems. Strategic problems are inherently wicked – they are essentially unique, highly complex, linked to other problems, can be defined and interpreted in many ways, have no correct answer, nor a delimited set of possible solutions. The planning approach of recognizing the problem, fully analyzing the situation, formulating a comprehensive plan and then implementing the solution, is sure to choke on a wicked problem. A number of weaknesses of planning show up when confronted with a wicked problem.

First, problems cannot be simply recognized and analyzed, but can be interpreted and defined in many ways, depending on how the executive looks at it. Therefore, half the work of the strategizing executive is *making sense* out of complex problems. Or, as Rittel and Webber (1973) put it, the definition of a wicked problem is the problem! Executives must search for new ways for understanding old problems and must be aware of how others are reinterpreting what they see (e.g. Liedtka, 2000; Smircich and Stubbart, 1985). This inhibits strategic planning and encourages strategic incrementalism.

Second, a full analysis of a wicked problem is impossible. Due to a wicked problem's complexity and links to other problems, a full analysis would take, literally, forever. And there would always be more ways of interpreting the problem, requiring more analysis. Strategic planning based on the complete understanding of a problem in advance therefore necessarily leads to paralysis by analysis (e.g. Langley, 1995; Lenz and Lyles, 1985). In reality, however, executives move proactively despite their incomplete understanding of a wicked problem, *learning* as they go along. By acting and thinking at the same time, strategizing executives can focus their analyses on what seems to be important and realistic in practice, gradually shaping their understanding along the way.

Third, developing a comprehensive plan to tackle a wicked problem is asking for trouble. Wicked problems are very complex, consisting of many *sub-problems*. Formulating a master plan to solve all sub-problems in one blow would require a very high level of planning sophistication and an organization with the ability to implement plans in a highly coordinated manner – much like the circus performers who can keep ten plates twirling at the ends of poles at the same time. Such organizations are rare at best, and the risk of a grand strategy failing is huge – once one plate falls, the rest usually comes crashing down. This is also known as Knagg's law: the more complex a plan, the larger the chance of failure. Incrementalists therefore argue that it is wiser to tackle sub-problems individually, and gradually blend these solutions into a cohesive pattern of action.

Finally, planners who believe that formulation and implementation can be separated underestimate the extent to which wicked problems are interactive. As soon as an organization starts to implement a plan, its actions will induce counteractions. Customers will react, competitors will change behavior, suppliers will take a different stance, regulatory agencies might come into action, unions will respond, the stock markets will take notice and company employees will draw conclusions. Hence, action by the organization will change the nature of the problem. And since the many counter-parties are intelligent players, capable of acting strategically, their responses will not be entirely predictable. Planners will not be able to forecast and incorporate other parties' reactions into the plans. Therefore, plans will be outdated as soon as implementation starts. For this reason, incrementalists argue that action must always be swiftly followed by redefinition of the problem and reconsideration the course of action being pursued. Over time, this iterative process of *action-reaction-reconsideration* will lead to the emergence of a pattern of action, which is the best possible result given the interactive nature of wicked problems.

This last point, on the unpredictability of external and internal reactions to a plan, leads up to a weakness of strategic planning that is possibly its most obvious one – strategy has to do with the future and the future is inherently *unknown*. Developments cannot be clearly forecast, future opportunities and threats cannot be predicted, nor can future strengths and weaknesses be accurately foreseen. In such unknown terrain, it is foolhardy to commit oneself to a preset course of action unless absolutely necessary. It makes much more sense in new and unpredictable circumstances to remain flexible and adaptive, postponing fixed commitments for as long as possible. An unknown future requires not the mentality of a train conductor, but of an *explorer* – curious, probing, venturesome, and entrepreneurial, yet moving cautiously, step-by-step, ready to shift course when needed.

To proponents of the strategic incrementalism perspective, it is a caricature to call such behavior ad hoc or muddling through. Rather, it is behavior that acknowledges the fact that strategy formation is a process of innovation and organizational development in the face of wicked problems in an unknown future. Under these circumstances, strategies must be allowed to emerge and 'strategic planning' must be seen for what it is – a contradiction in terms.

4.5 CONCLUSION

So, how should strategies be formed in practice? Should executives strive to formulate and implement strategic plans, supported by a formalized planning and control system? Or should executives move incrementally, behaving as inventors, organizational developers and explorers? The main differences between the strategic planning perspective and the strategic incrementalism perspective are outlined in table 4.1.

TABLE 4.1
Strategic planning versus strategic incrementalism perspective

	Strategic Planning	**Strategic Incrementalism**
Emphasis on	Deliberateness over emergence	Emergence over deliberateness
Nature of strategy	Intentionally designed	Gradually shaped
Strategy formation as	Figuring out	Finding out
Future developments	Forecast and anticipate	Partially unknown and unpredictable
Posture towards the future	Make commitments, prepare	Few commitments, remain flexible
Formation process	Formally structured & comprehensive	Unstructured and fragmented
Formation process steps	First think, then act	Thinking and acting intertwined
Decision-making	Hierarchical	Dispersed
Decision-making focus	Resource allocation and coordination	Experimentation and parallel initiatives
Implementation focus on	Programming (efficiency)	Learning (development)
Strategic change	Implemented top-down	Needs broad cultural & cognitive shifts

To measure what executives actually think about strategy formation, these two opposite poles have been translated into 24 statements that can be judged by executives. In table 4.2, the two sets of opposing policy statements are presented, which can be used for capturing executives' views on strategy formation. These statements will be revisited in chapter 14.

TABLE 4.2
Statements representing the opposite perspectives

Strategic Planning Perspective		**Strategic Incrementalism Perspective**	
3.1	Strategies should be largely thought out before actions are undertaken.	4.1	The strategic direction should be found step by step through experimenting and learning.
3.2	Firms should forecast long-term developments and plan accordingly.	4.2	Firms should not bother trying to forecast long-term developments.
3.3	Firms should first formulate strategic plans and then implement them.	4.3	Firms should gradually explore the best strategic direction to take.
3.4	Firms should plan their investments and activities in advance.	4.4	Firms should flexibly respond to emerging opportunities and threats.
3.5	Managers should create detailed road maps of all activities that need to be done.	4.5	Managers should grab unforeseen opportunities as they emerge.
3.6	Firms should have an internally consistent strategy.	4.6	Top management should allow various strategic initiatives to compete with one another.

3.7	Annual strategic planning processes are an effective way to formulate and implement the strategic actions of firms.	4.7	Strategic moves cannot be planned long in advance, but need to be constantly adapted to unfolding conditions.
3.8	Without a long-term plan, a firm will be engaged in ad hoc management.	4.8	Even if a firm doesn't have a long-term plan, it can still behave strategically.
3.9	Detailed strategic plans are valuable, because they specify goals against which progress can be measured.	4.9	Making detailed strategic plans is a waste of time.
3.10	Detailed long-term planning is valuable for coordinating strategic developments within a firm.	4.10	Successful managers set a general strategic direction and then fill in the details along the way.
3.11	Detailed strategic plans are essential for firms to set investment priorities.	4.11	A good strategy is not a detailed long-term plan, but a guideline for the further exploration of opportunities.
3.12	Linking operational planning to long-term strategy is essential for corporate success.	4.12	In the long run firms must reinvent themselves, which is an unplannable process of experimentation and learning.

Chapter 5

STRATEGIC CHANGE

5.1 INTRODUCTION

In a world of new technologies, transforming economies, shifting demographics, reforming governments, fluctuating consumer preferences, and dynamic competition, it is not a question of whether firms *should* change, but of where, how and in what direction they *must* change. For 'living' organizations, change is a given. Firms must constantly be aligned with their environments, either by reacting to external events, or by proactively shaping the businesses in which they operate.

While change is pervasive, not all change in firms is strategic in nature. Much of the change witnessed is actually the on-going operational kind. To remain efficient and effective, firms constantly make 'fine-tuning' alterations, whereby existing procedures are upgraded, activities are improved and people are reassigned. Such *operational changes* are directed at increasing the performance of the firm within the confines of the existing system – within the current basic set-up used to align the firm with the environment. *Strategic changes*, on the contrary, are directed at creating a new type of alignment – a new fit between the basic set-up of the firm and the characteristics of the environment. Strategic changes have an impact on the way the firm does business (its *business system*) and on the way the organization has been configured (its *organizational system*). In short, while operational changes are necessary to maintain the business and organizational systems, strategic changes are directed at renewing them.

For executives the challenge is to implement strategic changes on time, to keep the firm in step with the shifting opportunities and threats in the environment. Some parts of the firm's business system and organizational system can be preserved, while others need to be transformed for the firm to stay up-to-date and competitive. This process of constantly enacting strategic changes to remain in harmony with external conditions is called *strategic renewal*.

In this chapter it will be examined what series of strategic change steps executives believe are required to bring about a process of on-going strategic renewal. However, before moving to the differing perspectives on this topic, a further review of the nature of strategic renewal is necessary.

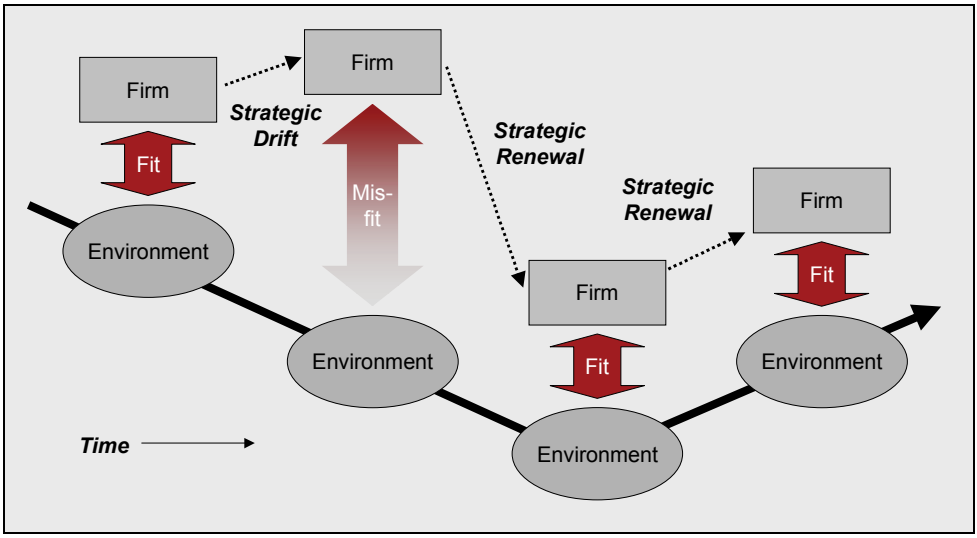
5.2 THE ISSUE OF STRATEGIC RENEWAL

There are many actions that constitute a strategic change – a reorganization, a diversification move, a shift in core technology, a business process redesign and a product portfolio reshuffle, to name a few. Each one of these changes is fascinating in itself. Yet, here the

discussion will be broader than just a single strategic change, looking instead at the process of how a series of strategic changes can be used to keep the firm in sync with its surroundings (see figure 5.1). How can 'a path of strategic changes' be followed to constantly renew the firm and avoid that the firm 'drifts' too far away from the demands of the environment (Johnson, 1988).

To come to a deeper understanding of the issue of strategic renewal, the first step that must be taken is to examine what is actually being renewed during a process of strategic renewal. The *areas of strategic renewal* will be explored in the next section below. After this initial analysis of 'what' is being changed, a distinction will be made between the magnitude and the pace of changes. The *magnitude of changes* refers to the size of the steps being undertaken, whereby the question is whether executives should move in bold and dramatic strides, or in moderate and undramatic ones. The *pace of changes* refers to the relative speed at which the steps are being taken, whereby the question is whether executives should move quickly in a short period of time, or more gradually over a longer time span.

FIGURE 5.1
Example of an on-going strategic renewal process



5.2.1 The Areas of Strategic Renewal

Firms are complex systems, consisting of many different elements, each of which can be changed. Therefore, to gain more insight into the various areas of potential change, firms need to be analytically disassembled into a number of component parts. The most fundamental distinction that can be made within a firm is between the business system and the organizational system:

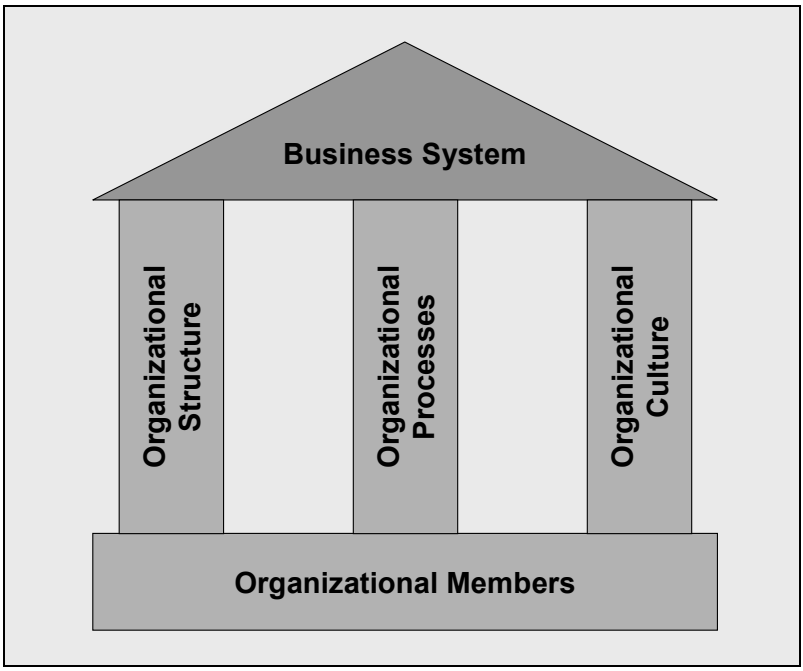
- *Business system*. The term business system refers to the way a firm conducts its business. A simple definition would be "how a firm makes money". A more formal definition of business system is "the specific configuration of resources, value-adding activities and product/service offerings directed at creating value for customers". Each firm has its own

specific system for taking certain resources as inputs (e.g. materials and know how), adding value to them in some type of manner (e.g. production and branding) and then selling a particular package of products and/or services as output. As such, a firm's business system (or *value creation system*) is particular to the type of business that the firm is in – an airplane manufacturer conducts its business differently than an airline.

- *Organizational system*. The term organizational system refers to the way a firm gets its people to work together to carry out the business. A simple definition would be "how a firm is organized". A more formal definition of the organizational system would be "how the individuals populating a firm have been configured, and relate to one another, with the intention of facilitating the business system". Every firm needs to determine some type of *organizational structure*, dividing the tasks and responsibilities among the *organizational members*, thereby instituting differing functions and units. Firms also require numerous *organizational processes* to link individual members to each other, to ensure that their separate tasks are coordinated into an integrated whole. And firms necessarily have *organizational cultures*, and sub-cultures, as organizational members interact with one another and build up joint beliefs, values and norms.

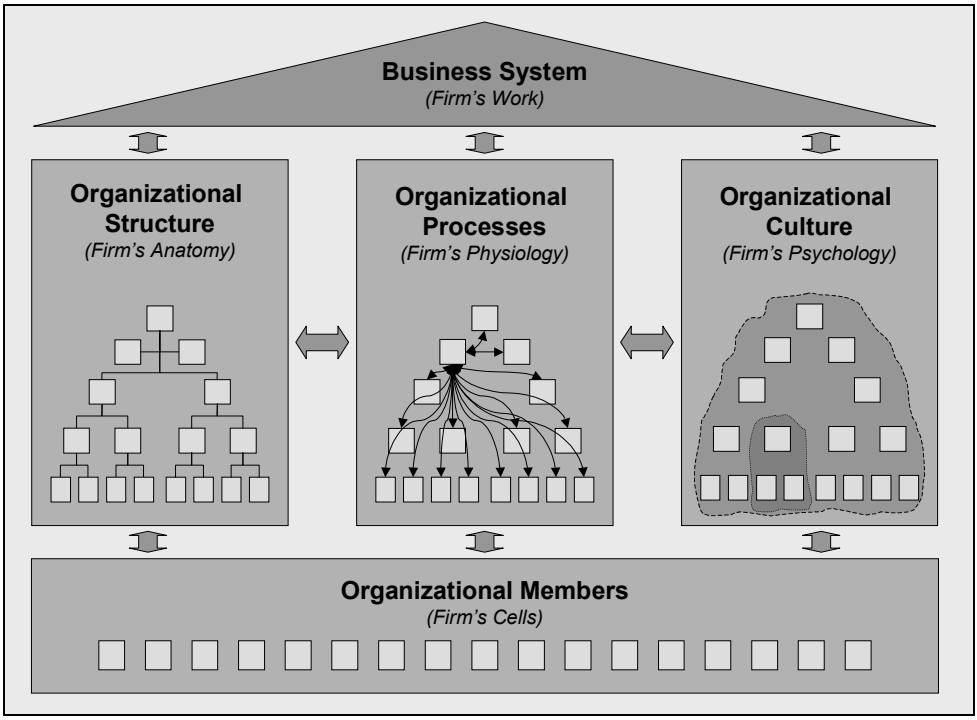
In figure 5.2 the relationship between the business system and the major components of the organizational system is depicted. As this figure illustrates, the business system is 'supported' by the organizational system, with the organizational members 'at its base'. While each firm's business and organizational systems are essentially unique, their general configuration can be fairly similar to that of other firms. Where firms have a comparable business 'formula', it is said that they share the same *business model*. Likewise, where firms have a similar organizational 'form', they are said to subscribe to the same *organizational model*.

FIGURE 5.2
General view of the business system and the organizational system



Both the business system and the organizational system can be further disaggregated into component parts and examined in more detail. With this aim in mind, the business system will be at the center of attention in chapter 6. Here the organizational system will be further dissected. Actually, the term dissection conjures up images of the organizational system as 'corporate body', which is a useful metaphor for distinguishing the various components of an organizational system (Morgan, 1986). Following Bartlett and Ghoshal (1995) the organizational system can be divided into its *anatomy* (structure), *physiology* (processes) and *psychology* (culture). Each of these components, summarized in figure 5.3, will be examined below.

FIGURE 5.3
Detailed view of the components of the organizational system

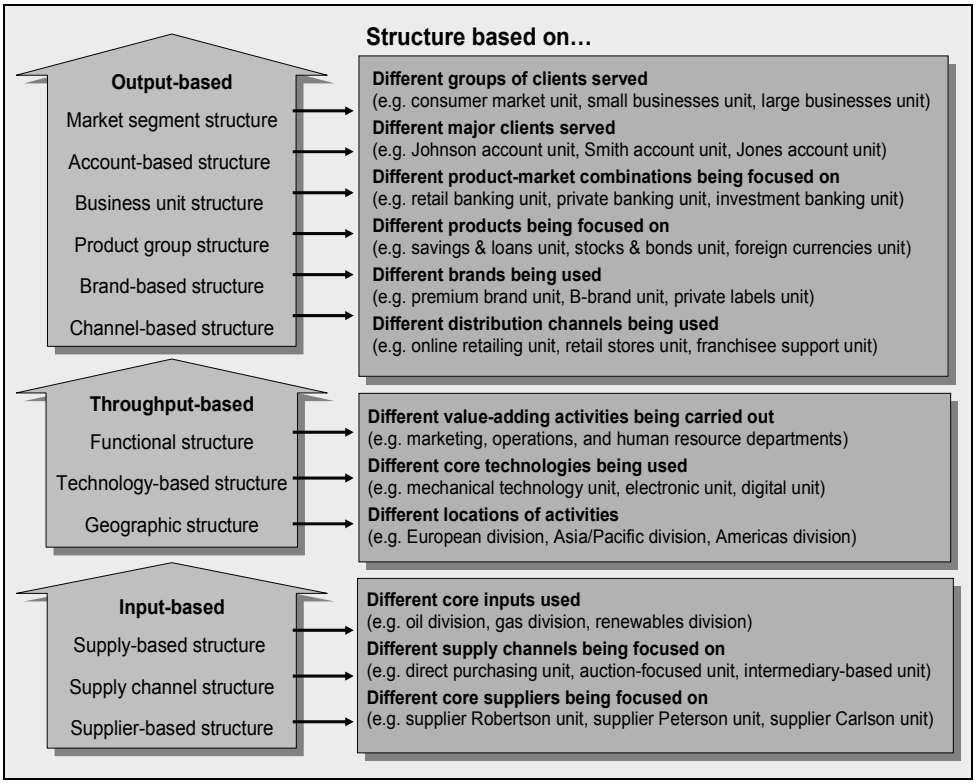


Organizational Structure

Organizational structure refers to the clustering of tasks and people into smaller groups. All organizations need at least some division of labor to function efficiently and effectively, requiring them to structure the organization into smaller parts. The main question when determining the organizational structure is which criteria will be used to differentiate tasks and to cluster people into particular units. While there are numerous *structuring (or decomposition) criteria*, the most common ones are summarized in figure 5.4. In a simple organization tasks might be divided according to just one criterion, but in most organizations multiple criteria are used (either sequentially or simultaneously).

To balance this *horizontal differentiation* of tasks and responsibilities, all organizations also have integration mechanisms, intended to get the parts to function well within the organizational whole (Lawrence and Lorsch, 1967). While some of these integration mechanisms are found in the categories of organizational processes and culture, the most fundamental mechanism is usually built into the organizational structure – *formal authority*. In organizations, executives are appointed with the specific task of supervising the activities of various people or units and to report to executives higher up in the *hierarchy*. Depending on the *span of control* of each executive (the number of people or units reporting to him/her) an organizational structure will consist of one or more *layers of management*. At the apex of this vertical structure is the board of directors, with the ultimate authority to make decisions or ratify decisions made at lower levels in the hierarchy. The most important questions in this context are the number of management layers needed and the amount of authority delegated to lower levels of management. It should be noted that the organizational charts used to represent the formal structure of an organization (see figure 5.3) need not be an accurate reflection of the *informal organizational structure* as it operates in reality.

FIGURE 5.4
Organizational structuring criteria



Organizational Processes

Organizational processes refer to the arrangements, procedures and routines used to control and coordinate the various people and units within the organization. Some formalized

processes span the entire organization, such as business planning and control procedures, and financial budgeting and reporting processes. Other control and coordination processes have a more limited scope, such as new product development meetings, yearly sales conferences, weekly quality circles, web-based expert panels and quarterly meetings with the board of directors. But not all organizational processes are institutionalized as on-going integration mechanisms. Often, integration across units and departments is needed for a short period, making it useful to employ task forces, committees, working groups, project teams and even joint lunches as means for ensuring coordination.

While all of these processes are formalized to a certain degree, many more informal organizational processes exist, such as communicating via hallway gossip, building support through personal networking, influencing decision-making through informal negotiations and solving conflicts by means of impromptu meetings.

Organizational Culture

Organizational culture refers to the worldview and behavioral patterns shared by the members of the same organization (e.g. Schein, 1985; Trice and Beyer, 1993). As people within a group interact and share experiences with one another over an extended period of time, they construct a joint understanding of the world around them. This shared belief system will be emotionally charged, as it encompasses the values and norms of the organizational members and offers them an interpretive filter with which to make sense of the constant stream of uncertain and ambiguous events around them. As this common ideology grows stronger and becomes more engrained, it will channel members' actions into more narrowly defined patterns of behavior. As such, the organizational culture can strongly influence everything from how to behave during meetings to what is viewed as ethical behavior.

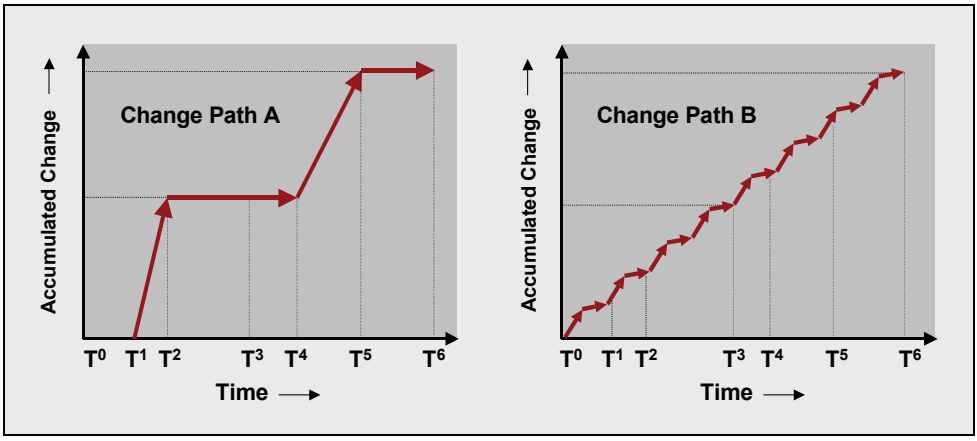
As part of the organizational system, culture can act as a strong integration mechanism, controlling and coordinating people's behavior, by getting them to abide by 'the way we do things around here'. Having a common 'language', frame of reference and set of values also makes it easier to communicate and work together. However, an organizational culture is not always homogeneous – in fact, strongly divergent subcultures might arise in certain units, creating 'psychological' barriers within the organization.

5.2.2 The Magnitude of Change

Strategic change is by definition far-reaching. We speak of strategic change when fundamental alterations are made to the business system or the organizational system. Adding a lemon-flavored Coke to the product portfolio is interesting, maybe important, but not a strategic change, while branching out into bottled water was – it was a major departure from Coca Cola's traditional business system. Hiring a new CEO is also important, but is in itself not a strategic change, while following this up by reorganizing the firm into global business units is.

Strategic renewal is often even more far-reaching, as a number of strategic changes are executed in a variety of areas to keep the firm aligned with market demands. But while the result of all of these strategic changes is far-reaching, this says nothing about the size of the steps along the way. The strategic renewal process might consist of a few large change steps or numerous small ones. This distinction is illustrated in figure 5.5. The total amount of strategic change envisaged is measured along the Y-axis. Route A shows the change path taken by a firm that has implemented all changes in two big steps, while route B shows the change path followed by a firm taking numerous smaller steps. Both organizations have completed the same renewal, but via distinctly different routes.

FIGURE 5.5
Example of two alternative change paths



The size of the change steps is referred to as the *magnitude of change*. This issue of change magnitude can be divided into two component parts:

- *Scope of change*. The scope of change in a firm can vary from *broad* to *narrow*. Change is broad when many aspects and parts of the firm are altered at the same time. In the most extreme case the changes might be comprehensive, whereby the business system is entirely revised, and the organizational structure, processes, culture and people are changed in unison. However, change can also be much more narrowly focused on a specific organizational aspect (e.g. new product development processes) or department (e.g. marketing). If many changes are narrowly targeted, the total result will be a more piecemeal change process.
- *Amplitude of organizational changes*. The amplitude of change in firms can vary from *high* to *low*. The amplitude of change is high when the new business system, organizational culture, structure, processes or people are a radical departure from the previous situation. The amplitude of change is low when the step proposed is a moderate adjustment to the previous circumstances.

Where a change is comprehensive and radical, the magnitude of the change step is large. In figure 5.5 this is represented as a large jump along the Y-axis. Where a change is narrow and moderate, the magnitude of the step is small. However, the above distinction also clarifies that there are two rather different types of medium-sized change steps – a *focused radical change* (narrow scope, high amplitude) and a *comprehensive moderate change* (broad scope, low amplitude). Both changes are 'mid-sized', yet significantly different to manage in practice.

5.2.3 The Pace of Change

Strategic renewal takes time. Yet, there is quite a variety of ways by which the strategic renewal process can take place over time. Strategic change measures can be evenly spread out over an extended period, allowing the organization to follow a relatively steady pace of

strategic renewal. However, it is also possible to cluster all changes into a few short irregular bursts, giving the renewal process an unsteady, stop-and-go, pace.

This distinction is seen in figure 5.5 as well. The total time period needed for achieving a strategic change is measured along the X-axis. Route A shows the change path taken by a firm that has had an unsteady pace of change, while route B tracks the path taken by a firm on a more steady change trajectory. Both organizations have completed the same strategic renewal process by T^3 and by T^6, but have distributed their change activities differently during the period.

In figure 5.5 it can also be seen that the pace of organizational changes can be decomposed into two related parts:

- *Timing of change*. First, the pace of change depends on the moment at which changes are initiated. The timing of change can vary from *intermittent* to *constant*. Where change is intermittent, it is important for a firm to determine the right moment for launching a new initiative (for example, T^1 and T^4 in change path A). The need to 'wait for the right timing' is often a reason for spreading change activities unevenly over time. On the other hand, change can be constant, so that the exact moment for kicking off any new set of measures is less important, as long as there is no peak at any one moment in time (see change path B).
- *Speed of change*. The pace of change also depends on the time span within which changes take place. The speed of change can vary from *high* to *low*. Where a major change needs to be implemented within a short period of time, the speed of change must be high. A short burst of fast action can bring about the intended changes. In figure 5.5, the speed can be seen by the slope of the arrow (in change path A, the speed between T^1 and T^2 is higher than between T^4 and T^5). On the other hand, where the change measures are less formidable and the time span for implementation is longer, the speed of change can be lower.

The variables of timing and speed of change, together with the variables of scope and amplitude of change, create a wide range of possible strategic renewal paths. Firms have many different ways of bringing about strategic change. Unavoidably, this raises the question which route is best. Why should a firm choose one trajectory over another?

5.3 THE TENSION BETWEEN REVOLUTION AND EVOLUTION

In selecting an approach to strategic change, most executives struggle with the question of how bold they should be. On the one hand, they usually realize that to fundamentally transform the organization a *break* with the past is needed. To achieve strategic renewal it is essential to turn away from the firm's heritage and to start with a clean slate. On the other hand, they also recognize the value of *continuity*, building on past experiences, investments and loyalties. To achieve lasting strategic renewal people in the organization will need time to learn, adapt and grow into a new organizational reality.

This distinction between *disruptive* change and *gradual* change has long been recognized in the strategic management and organizational behavior literature (e.g. Greiner, 1972; Tushman, Newman and Romanelli, 1986). Disruptive change is variably referred to as *frame breaking* (e.g. Baden-Fuller and Stopford, 1992; Grinyer, Mayes and McKiernan, 1987), *radical* (e.g. Stinchcombe, 1965; Greenwood and Hinings, 1996) and *revolutionary* (e.g. Gersick, 1991; Tushman and O'Reilly, 1996). Gradual change is variably referred to as *incremental* (e.g. Quinn, 1980; Johnson, 1987) and *evolutionary* (e.g. Nelson and Winter,

1982; Tushman and O'Reilly, 1996). Here the labels revolutionary and evolutionary change will be used, in keeping with the terminology used by Greiner (1972) in his classic work.

It is widely accepted among researchers that firms need to balance revolutionary and evolutionary change processes. However, most authors see this as a balancing of strategic (revolutionary) change and operational (evolutionary) change. As strategic change is far-reaching, it is often automatically equated with radical means, while gradual means are reserved for smaller-scale operational changes. Yet, in the previous section it was made clear that a radical result (a strategic change) can be pursued by both revolutionary and evolutionary means (e.g. Hayes, 1985; Krüger, 1996; Nonaka, 1988; Strebel, 1994).

While these two change processes are each other's opposites, and they seem to be at least partially contradictory, both approaches are needed within firms. In practice both change processes have valuable, but conflicting, qualities. The tension that this creates between revolution and evolution will be explored in the sections below.

5.3.1 The Demand for Revolutionary Change Processes

Revolution is a process whereby an abrupt and radical change takes place within a short period of time. Revolutionary change processes are those that do not build on the status quo, but overthrow it. 'Revolutionaries' revolt against the existing business system and organizational system, and attempt to push through changes that will reinvent the firm. Thus, revolution leads to a clear break with the past – a discontinuity in the firm's development path.

Such a 'big bang' approach to strategic change is generally needed when the *organizational rigidity* is so deeply rooted that smaller pushes do not bring the firm into movement. If the firm threatens to become paralyzed by these inherited rigidities in the business system and organizational system, the only way to get moving can be to radically break with the past. Typical sources of organizational rigidity include:

- *Psychological resistance to change*. Many people resist change, because of the uncertainty and ambiguity that unavoidably accompanies any shift in the old way of doing business (e.g. Argyris, 1990; Pondy, Boland and Thomas, 1988). As people become accustomed to fixed organizational routines and established habits, their ability to learn and gradually adapt invariably recedes. New business methods or job descriptions are not seen as a challenging opportunity to learn, but as an unwelcome interference in the existing system. It can be necessary to break through this psychological resistance to change by imposing a new business system and/or organizational system on people (e.g. Hammer, 1990; Powell, 1991).
- *Cultural resistance to change*. As discussed in chapter 3, people can easily become immune to signals that their cognitive maps are outdated, especially if they are surrounded by others with the same flawed belief system. Once an organizational culture develops that perpetuates a number of obsolete assumptions about the market or the organization, it is very difficult for organizational members to challenge and gradually reshape the organizational belief system. It can be necessary to break through this cultural resistance to change by exposing the organization to a shocking crisis or by imposing a new organizational system (e.g. Tushman, Newman and Romanelli, 1986; Senge, 1990).
- *Political resistance to change*. Change is hardly ever to everyone's advantage, as Machiavelli pointed out at the start of this chapter. Each organizational change leads to a different constellation of winners and losers. Generally, the potential losers reject a strategic change, although they are likely to think of some seemingly objective reasons

for their opposition. Even a situation in which a person or department thinks that it might run the risk of losing power to others can be enough to block a change. Since strategic changes invariably have a significant impact on all people within an organization, there will always be a number of open, and hidden, opponents. It can be necessary to break through this political resistance by imposing a new business system and reshuffling management positions (e.g. Allison, 1969; Krüger, 1996).

- *Investment lock-in*. Once a firm has committed a large amount of money and time to a certain product portfolio, activity system, or technology, it will find that this fixed investment locks the organization in. Any gradual movement away from the past investment will increase the risk of not earning back the sunk cost. Therefore, it can be necessary to break through the lock-in, by radically restructuring or disposing of the investment (e.g. Ghemawat, 1991; Bower and Christensen, 1995).
- *Competence lock-in*. The better a firm becomes at something, the more a firm becomes focused on becoming even better still – which is also known as the virtuous circle of competence building. Once a competitive advantage has been built on a particular type of competence, the natural tendency of firms is to favor external opportunities based on these competencies. New people are hired that fit with the corporate competence profile and R&D spending further hones the firm's skill. But if the firm's competence base threatens to become outdated due to market or technological changes, its former advantage could become its downfall – the firm can become caught in a vicious *competence trap*, unable to gradually shift the organization to an alternative set of competences, because the entire business system and organizational system have been aligned to the old set (e.g. Leonard-Barton, 1995; Teece, Pisano & Shuen, 1997). Changing the core competence of the corporation in a comprehensive and radical manner can be the only way to 'migrate' from one competence profile to another.
- *System lock-in*. Firms can also become locked into an open standard (e.g. sizes in inches, GAAP accounting rules) or a proprietary system (e.g. Windows operating system, SAP enterprise resource planning software). Once the firm has implemented a standard or system, switching to another platform cannot be done gradually or at low cost. Therefore, the lock-in can usually only be overcome by a big bang transition to another platform (e.g. Arthur, 1996; Shapiro and Varian, 1998).
- *Stakeholder lock-in*. Highly restrictive commitments can also be made towards the firm's stakeholders. Long term contracts with buyers and suppliers, warranties, commitments to governments and local communities, and promises to shareholders can all lock firms into a certain strategic direction. To break through the stakeholders' resistance to change it can be necessary to court a crisis and aim for a radical restructuring of the firm's external relationships (e.g. Freeman, 1984; Oliver, 1991).

Besides the use of revolutionary change to overcome organizational rigidity, such a radical approach to strategic renewal is often also necessary given the short time span available for a large change. The 'window of opportunity' for achieving a strategic change can be small for a number of reasons. Some of the most common triggers for revolutionary strategic change are:

- *Competitive pressure*. When a firm is under intense competitive pressure and its market position starts to erode quickly, a rapid and dramatic response might be the only approach possible. Especially when the organization threatens to slip into a downward spiral towards insolvency, a bold turnaround can be the only option left to the firm.

- *Regulatory pressure*. Firms can also be put under pressure by the government or regulatory agencies to push through major changes within a short period of time. Such externally imposed revolutions can be witnessed among public sector organizations (e.g. hospitals and schools) and highly regulated industries (e.g. utilities and telecommunications), but in other sectors of the economy as well (e.g. antitrust break-ups, public health regulations).
- *First mover advantage*. A more proactive reason for instigating revolutionary change is to be the first firm to introduce a new product, service or technology and to build up barriers to entry for late movers. Especially for know-how that is dissipation-sensitive, or for which the patent period is limited, it can be important to cash in quickly, before others arrive on the market (e.g. Kessler and Chakrabarthi, 1996; Lieberman and Montgomery, 1988, 1998)

To some extent all executives recognize that their organizations are prone to inertia, and most will acknowledge that it is often vital to move quickly, either in response to external pressures or to cash in on a potential first mover advantage. It should therefore come as no surprise that most executives would like their organizations to have the ability to successfully pull off revolutionary strategic changes.

5.3.2 The Demand for Evolutionary Change Processes

Evolution is a process whereby a constant stream of moderate changes gradually accumulates over a longer period of time. Each change is in itself small, but the cumulative result can be large. Evolutionary change processes take the current firm as a starting point, constantly modifying aspects through extension and adaptation. Some 'mutations' to the firm prove valuable and are retained, while other changes are discarded as dysfunctional. Thus, a new business system and/or organizational system can steadily evolve out of the old, as if the organization were shedding its old skin to grow a new one (e.g. Aldrich, 1999; Kagono et al., 1985).

This 'metamorphosis' approach to strategic change is particularly important where the strategic renewal hinges on widespread *organizational learning*. Learning is not a process that is easily compressed into a few short bursts of activity (as anyone who has studied knows). Learning is a relatively slow process, whereby know-how is accumulated over an extended period of time. It can take years to learn things, especially if the necessary knowledge is not readily available, but must be acquired 'on the job' (e.g. Agryris, 1990; Senge, 1990).

This is true for both individuals and firms. When groups of people in a firm need to develop new routines, new competences, new processes, as well as new ways of understanding the world, time is needed to experiment, reflect, discuss, test and internalize. Even in the circumstances where individuals or departments are merely asked to adjust their behaviors to new norms, the learning process is often protracted and difficult (e.g. Nelson and Winter, 1982; Pfeffer and Sutton, 1999).

While the evolutionary nature of learning is a positive factor stimulating gradual change, the organizational reality is often also that power is too dispersed for revolutionary changes to be imposed upon the firm. Where no one has enough sway in the organization to push through radical changes, a more evolutionary approach can be the only viable route forward.

To some extent all executives recognize that their firms need to continuously learn and adapt, while most will acknowledge that they do not have the absolute power to impose

revolutionary changes at will. For these reasons executives generally would like their organizations to have the ability to pursue evolutionary changes.

Yet, engaging in evolutionary change is the opposite of revolutionary change. On the one hand, being opposites might make revolution and evolution complementary. Some authors suggest that organizations should be 'ambidextrous', using both revolution and evolution, contingent upon internal and external conditions (e.g. Duncan, 1976; Krüger, 1996; Tushman and O'Reilly, 1996). On the other hand, the above discussion makes clear that the two are, to a certain extent, mutually incompatible. Once the one form of change has been chosen, this will seriously limit the ability of the strategist to simultaneously, or even subsequently, use the other. Hence, executives are once again faced with a tension, between revolution and evolution.

5.4 PERSPECTIVES ON STRATEGIC CHANGE

Although the demand for both revolutionary and evolutionary change is clear, this does place executives in the difficult position of having to determine how these two must be combined and balanced in a process of on-going strategic renewal. Revolutionary change is necessary to create *discontinuity* in the renewal process – radical and swift breaks with the past. Evolutionary change is necessary to ensure *continuity* in the renewal process – moderate and gradual metamorphosis from one state into another. In finding a balance between these two demands, the question is which of the two must play a leading role and what type of change path this leads to. Does successful strategic renewal hinge on a few infrequent big bangs, with some minor evolutionary changes in the intervening time span, or is successful strategic renewal essentially a gradual process of mutation and selection, where revolutionary changes are only used in case of emergency?

As in the previous chapters, the strategic management literature comes up with a wide variety of answers to this question. Both among business practitioners and strategy researchers, views differ sharply about the best way of dealing with the tension between revolution and evolution. To gain insight into the major points of disagreement between people on the issue of strategic renewal, again the two diametrically opposed perspectives will be reviewed here.

At one end of the virtual continuum of views, are the strategists who argue that real strategic renewal can only be achieved by radical means. Revolutionary change, although difficult to achieve, is at the heart of renewal, while evolutionary changes can only figure in a supporting role. This point of view shall be referred to as the *discontinuous renewal perspective*. At the other end of the spectrum are the strategists who argue that real strategic renewal is not brought about by an "axe", but must grow out of the existing firm, in a constant stream of small adjustments. Evolutionary change, although difficult to sustain, is at the heart of renewal, while revolutionary changes are a fall-back alternative, if all else fails. This point of view shall be referred to as the *continuous renewal perspective*.

5.4.1 The Discontinuous Renewal Perspective

According to advocates of the discontinuous renewal perspective, it is a common misconception that firms develop gradually. It is often assumed that organizations move fluidly from one state to the next, encountering minimal friction. In reality, however, strategic change is arduous and encounters significant resistance. Pressure must be exerted, and tension must mount, before a major shift can be accomplished. Movement, therefore, is not steady and constant, as a current in the sea, but abrupt and dramatic, as in an earthquake,

where resistance gives way and tension is released in a short shock. In general, the more significant a change is, the more intense the shock will be.

Proponents of this perspective argue that people and organizations exhibit a natural reluctance to change. Humans have a strong preference for stability. Once general policy has been determined, most firms are inclined to settle into a fixed way of working. The organizational structure will solidify, formal processes will be installed, standard operating procedures will be defined, key competence areas will be identified, a distribution of power will emerge, and a corporate culture will become establish. The stability of an organization will be especially high if all of these elements form a consistent and cohesive configuration (e.g. Mintzberg, 1991; Waterman, Peters and Philips, 1982). Moreover, if a firm experiences a period of success, this usually strongly reinforces the existing way of working (e.g. Markides, 1998; Audia, Locke and Smith, 2000).

It must be emphasized that stability is not inherently harmful, as it allows people to 'get to work'. A level of stability is required to function efficiently (e.g. March and Simon, 1958; Thompson, 1967). Constant upheaval would only create an organizational mess. There would be prolonged confusion about tasks and authority, poorly structured internal communication and coordination, and a lack of clear standards and routines. The instability brought on by such continuously changing processes and structures would lead to widespread insecurity, political maneuvering, and interdepartmental conflicts.

Advocates of the discontinuous renewal perspective, therefore, argue that long periods of relative stability are necessary for the proper functioning of firms. However, the downside of stability is rigidity – the unwillingness and/or inability to change, even when it is urgently required. To overcome rigidity and get the firm in motion, a series of small nudges will by no means be sufficient. A big shove will be needed. For strategic changes to really happen, measures must be radical and comprehensive. A coordinated assault is usually required to decisively break through organizational defenses and 'shock therapy' is needed to fundamentally change people's cognitive maps. Solving lock-in problems generally also demands a quick, firm-wide switchover to a new system. For instance, business process reengineering must involve all aspects of the value chain at once (e.g. Hammer, 1990; Hammer and Champy, 1993). However, proponents of the discontinuous renewal perspective emphasize that the period of turmoil must not take too long. People cannot be indefinitely confronted with high levels of uncertainty and ambiguity, and a new equilibrium is vital for a new period of efficient operations.

Therefore, the long-term pattern of strategic renewal is not gradual, but episodic. Periods of relative stability are interrupted by short and dramatic periods of instability, during which revolutionary changes take place (e.g. Greiner, 1972; Tushman, Newman and Romanelli, 1986). This pattern of development has been recognized in a variety of other sciences as well (Gersick, 1991). Following the natural historians Eldredge and Gould, this discontinuous pattern of strategic renewal is often called *punctuated equilibrium* – stability punctuated by episodes of revolutionary change.

Some proponents of this view argue that episodes of revolutionary change are generally not chosen freely, but are triggered by crises. A major environmental jolt can be the reason for a sudden crisis (e.g. Meyer, 1982; Meyer, Brooks and Goes, 1990) – for example, the introduction of a new technology, a major economic recession, new government regulations, a novel market entrant or a dramatic event in international political affairs. However, often a misalignment between the firm and its environment grows over a longer period of time, causing a mounting sense of impending crisis (e.g. Johnson, 1988; Strebel, 1992). As tension increases, people in the firm become more receptive to submit to the painful changes that are necessary. This increased willingness to change under crisis circumstances coincides with the physical law that 'under pressure things become fluid'. As

long as the pressure persists, revolutionary change is possible, but as soon as the pressure lets up the firm will resolidify in a new form, inhibiting any further major changes (e.g. Lewin, 1947; Miller and Friesen, 1984). For this reason, executives often feel impelled to heighten and prolong the sense of crisis, to keep the organizational members receptive to the changes being pushed through. And where a crisis is lacking, some executives will induce one, to create the sense of urgency and determination needed to get people in the change mind-set.

Other authors argue that revolutionary changes are not always reactive responses to crisis conditions. Revolutionary change can also be proactively pursued, to gain a competitive advantage, or even to change the rules of the game in the industry in which the firm is competing. If a firm decides to use a breakthrough technology or a new business model to improve its competitive position vis-à-vis rivals, this does entail that it will need to execute some major changes in a short period of time. Such innovations to the business system are inherently revolutionary. Creating novel products and developing a unique business formula requires a sharp break with the past. Old ways must be discarded, before new methods can be adopted. This is the essence of what Schumpeter (1950) referred to as the process of *creative destruction*, inherent in the capitalist system. This process is not orderly and protracted, but disruptive and intense. Therefore, it is argued, to be a competitive success, firms must learn to master the skill of on-going revolutionary change (e.g. D'Aveni, 1994; Hamel, 1996). Rapid implementation of system-wide change is an essential organizational capability – the firm needs to be able to run faster than its competitors.

It can be concluded that strategic changes, whether proactive or reactive, require an abrupt break with the status quo. Change management demands strong leadership to rapidly push through stressful, discomforting and risky shifts in the business and organizational system. Battling the sources of rigidity and turning crisis into opportunity are the key qualities needed by executives implementing strategic change. Ultimately, strategizing executives should know when to change and when it is wiser to seek stability – they should know when to trigger an 'earthquake' and when to avoid one.

5.4.2 The Continuous Renewal Perspective

According to proponents of the continuous renewal perspective, if firms shift by 'earthquake', it is usually their own 'fault'. The problem with revolution is that it commonly leads to the need for further revolution at a later time – discontinuous change creates its own boom-and-bust cycle. Revolutionary change is generally followed by a strong organizational yearning for stability. The massive, firm-wide efforts to implement agonizing changes can often only be sustained for a short period of time, after which change momentum collapses. Any positive inclination towards change among employees will have totally disappeared by the time the reorganizations are over. Consequently, the firm lapses back into a stable state, in which only minor changes occur. This stable situation is maintained until the next round of shock therapy becomes necessary, to jolt the organization out of its ossified state.

To supporters of the continuous renewal perspective, the boom-and-bust approach to strategic change is like running a marathon by sprinting and then standing still to catch one's breath. Yet, marathons are not won by good sprinters, but by runners with endurance and persistence, who can keep a steady pace – runners who are more inspired by the tortoise than by the hare. The same is true for companies in the marathon of competition. Some companies behave like the hare in Aesop's fable, showing off their ability to take great leaps, but burdened by a short span of attention. Other companies behave more like the tortoise, moving gradually and undramatically, but unrelentingly and without interruption, focusing on the long-term goal. In the short run, the hares might dash ahead, suggesting that making big leaps forward is the best way to compete. But in the long run, the most formidable contenders will

be the diligent tortoises, whose ability to maintain a constant speed will help them to win the race.

Therefore, the 'big ideas', 'frame-breaking innovations' and 'quantum leaps' that so mesmerize proponents of the discontinuous renewal perspective, are viewed with suspicion by supporters of continuous renewal. Revolution not only causes unnecessary disruption and dysfunctional crises, but also is usually the substitute of diligence. If organizations do not have the stamina to continuously improve themselves, quick fix radical change can be used as a short-term remedy. Where firms do not exhibit the drive to permanently upgrade their capabilities, revolutionary innovations can be used as the short cut to renewed competitiveness. In other words, the lure of revolutionary change is that of short-term results. By abruptly and dramatically making major changes, executives hope to rapidly book tangible progress – and instantly win recognition and promotion (Imai, 1986).

To advocates of the continuous renewal perspective, a preference for revolution usually reflects an unhealthy obsession with the short term. Continuous renewal, on the other hand, is more long term in orientation. Development is gradual, piecemeal and undramatic, but as it is constantly maintained over a longer period of time, the aggregate level of change can still be significant. Three organizational characteristics are important for keeping up a steady pace of change. First, all employees within the firm should be committed to *continuously improve*. Everyone within the firm should be driven by constructive dissatisfaction with the status quo. This attitude, that things can always be done better, reflects a rejection of stability and the acceptance of bounded instability (e.g. Beinhocker, 1999; Stacey, 1993) – everything is open to change.

Secondly, everyone in the firm must be motivated to *continuously learn*. People within the organization must constantly update their knowledge base, which not only means acquiring new information, but challenging accepted company wisdom as well. Learning goes hand in hand with unlearning – changing the cognitive maps shared within the organization. In this respect, it is argued that an atmosphere of crisis actually inhibits continuous renewal. In a situation of crisis, it is not a matter of 'under pressure things become fluid', but 'in the cold everything freezes'. Crisis circumstances might lower people's resistance to imposed change, but it also blunts their motivation for experimenting and learning, as they brace themselves for the imminent shock. Crisis encourages people to seek security and to focus on the short term, instead of opening up and working towards long-term development (e.g. Bate, 1994; Senge, 1990).

Thirdly, everyone in the firm must be motivated to *continuously adapt*. Constant adjustment to external change and fluid internal realignment should be pursued. To this end, the organization must actively avoid inertia, by combating the forces of ossification. Executives should strive to create flexible structures and processes (e.g. Bartlett and Ghoshal, 1995; Eisenhardt and Brown, 1997), to encourage an open and tolerant corporate culture, and to provide sufficient job and career security for employees to accept other forms of ambiguity and uncertainty (e.g. Kagono et al., 1985; Nonaka, 1988).

These three characteristics of an evolutionary firm – continuous improvement, learning and adaptation – have in common that basically everyone in the organization is involved. Revolutionary change can be initiated by top management, possibly assisted and urged on by a few external consultants, and carried by a hand full of change agents or champions (e.g. Maidique, 1980; Day, 1994). Evolutionary change, on the other hand, requires a firm-wide effort. Leaders cannot learn on behalf of their organizations, nor can they orchestrate all of the small improvements and adaptations needed for continuous renewal. Executives must realize that evolution can be led from the top, but not imposed from the top. For strategizing executives to realize change, hands-on guidance of organizational developments is more important than commanding organizational actions.

5.5 CONCLUSION

So, how do executives believe they should go about renewing their organizations? Do they feel they need to strive to bring about renewal abruptly, by emphasizing radical, comprehensive and dramatic changes? Or do they suppose they should try to make renewal a more continuous process, accentuating on-going improvement, learning and adaptation? The main differences between the discontinuous renewal perspective and the continuous renewal perspective are outlined in table 5.1.

TABLE 5.1
Discontinuous renewal versus continuous renewal perspective

	Discontinuous Renewal Perspective	**Continuous Renewal Perspective**
Emphasis on	Revolution over evolution	Evolution over revolution
Strategic renewal as	Disruptive innovation/turnaround	Uninterrupted improvement
Strategic renewal process	Creative destruction	Organic adaptation
Magnitude of change	Radical, comprehensive and dramatic	Moderate, piecemeal and undramatic
Pace of change	Abrupt, unsteady and intermittent	Gradual, steady and constant
Lasting renewal requires	Sudden break with status quo	Permanent learning and flexibility
Reaction to external jolts	Shock therapy	Continuous adjustment
View of crises	Under pressure things becomes fluid	In the cold everything freezes
Renewal dynamics	Stable and unstable states alternate	Persistent transient state
Long-term renewal pattern	Punctuated equilibrium	Gradual development

To measure what executives actually think about strategic renewal, the two opposite poles have again been translated into 24 statements that can be judged by executives. In table 5.2, the two sets of opposing policy statements are presented, which will be used for capturing executives' views on strategic change. These statements will be revisited in chapter 14.

TABLE 5.2
Statements representing the opposite perspectives

Discontinuous Renewal Perspective		**Continuous Renewal Perspective**	
5.1	To achieve a major change, managers should push through all necessary measures in a swift, bold move.	6.1	To achieve a major change, managers should implement many moderate changes one after the other.
5.2	Major organizational change requires large-scale dramatic measures.	6.2	Major organizational change works best through continuous small improvements.
5.3	Major organizational changes require a crisis, to undermine potential resistance.	6.3	If employees are directly involved, major organizational changes can be achieved without a crisis.
5.4	Major change should take place in short episodes, disrupting longer periods of stability.	6.4	Major change should be the result of a continual development process.

5.5	Organizational change should be radical, to break through employees' old habits and routines.	6.5	Organizational change should be moderate, to allow employees to learn and adapt their routines.
5.6	Managers must avoid losing momentum by changing too few things.	6.6	Managers must avoid creating a mess caused by changing too many things at the same time.
5.7	Managers expecting organizational changes to take years of gradual development lack ambition.	6.7	It is unrealistic to expect radical measures to bring lasting change within a few months.
5.8	Gradual and continual organizational change is favored by managers without the courage to upset current interests.	6.8	Radical and disruptive organizational change is favored by managers without the discipline to guide a continuous process.
5.9	Only managers who provoke a radical break with the past will successfully change an existing organization.	6.9	Only managers who maintain constant pressure over a prolonged period of time will successfully change an existing organization.
5.10	Employees can endure a period of disruption and uncertainty, if organizational changes have a clear end date.	6.10	To achieve employee acceptance, change needs to be gradual.
5.11	Organizations are like old regimes that can only be overthrown by revolution.	6.11	Organizations are like oil tankers, whose course can only be changed gradually.
5.12	Advocating evolutionary change is the best way to ensure that no real changes will happen at all.	6.12	Striving for revolutionary change is the quickest way to create resistance to any changes in future.

Chapter 6

BUSINESS LEVEL STRATEGY

6.1 INTRODUCTION

Strategic management is concerned with relating a firm to its environment, in order to successfully meet long-term objectives. As both the business environment and individual firms are dynamic systems, constantly in flux, achieving a fit between the two is an ongoing challenge. Executives are continuously looking for new ways to align the current, and potential, strengths and weaknesses of the organization with the current, and potential, opportunities and threats in the environment.

Part of the difficulty lies in the competitive nature of the environment. To be successful, firms need to gain a *competitive advantage* over rival organizations operating in the same business area. Within the competitive arena chosen by a firm, it needs to accrue enough power to counterbalance the demands of buyers and suppliers, to outperform rival producers, to discourage new firms from entering the business and to fend off the threat of substitute products or services. Preferably this competitive advantage over other players in the business should be *sustainable* over a prolonged period of time. How firms should go about creating a (sustainable) competitive advantage in each business in which they operate, is the central issue concerning executives engaged in business level strategy.

In this chapter, the focus will be on how executives believe they should achieve competitive advantage. Before moving to the two opposite perspectives on business level strategy, however, the nature of competitive advantage will be further explored.

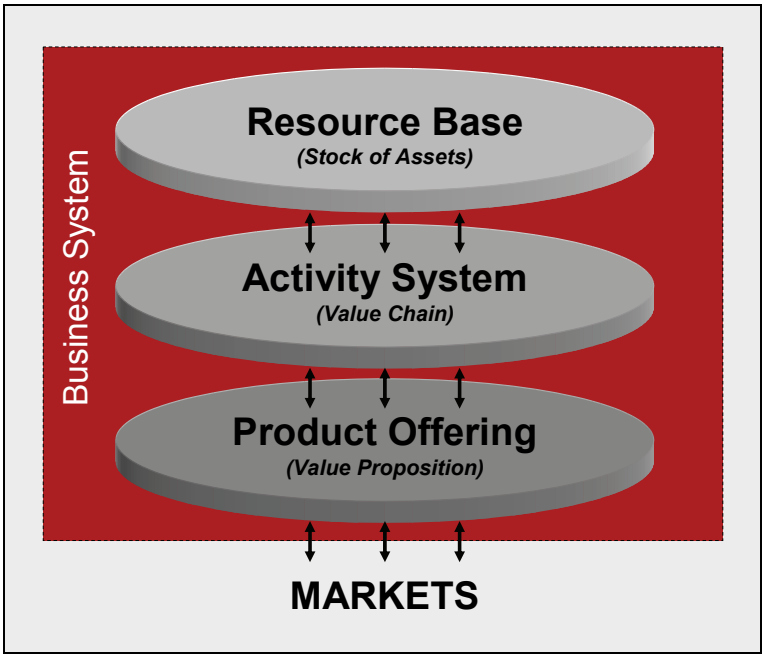
6.2 THE ISSUE OF COMPETITIVE ADVANTAGE

Whether a firm has a competitive advantage depends on the *business system* that it has developed to relate itself to its business environment. A business system is the configuration of resources (inputs), activities (throughput) and product/service offerings (output) intended to create value for customers – it is the way a firm conducts its business. In figure 6.1 an overview is given of the components of a business system.

Competitive advantage can only be achieved if a business system creates superior value for buyers. Therefore, the first element in a successful business system is a superior *value proposition*. A firm must be able to supply a product or service more closely fitted to client needs than rival firms. To be attractive, each element of a firm's *product offering* needs to be targeted at a particular segment of the market and have a superior mix of attributes (e.g. price, availability, reliability, technical specifications, image, color, taste, ease of use, etc.). Secondly, a successful company must also have the ability to actually develop and supply the

superior product offering. It needs to have the capability to perform the necessary value-adding activities in an effective and efficient manner. These value-adding activities, such as R&D, production, logistics, marketing and sales, are jointly referred to as a firm's *activity system* (or *value chain*). The third component of a business system consists of the *resource base* required to perform the value-adding activities. Resources such as know how, patents, facilities, money, brands and relationships make up the *stock of assets* that can be employed to create the product offering. If these firm-specific assets are distinctive and useful, they can form the basis of a superior value proposition. To create a competitive advantage, alignment must be achieved between all three elements of a business system. In the following pages all three elements will be discussed in more detail.

FIGURE 6.1
Components of a business system



6.2.1 The Product Offering

At the intersection between a firm and its environment transactions take place, whereby the firm supplies goods or performs services for clients in the market place. It is here that the alignment of the firm and its environment is put to the test. If the products and services offered by the firm are more highly valued by customers than alternatives, a profitable transaction could take place. In other words, for sales to be achieved a firm must have a competitive value proposition – a cluster of physical goods, services and/or additional attributes with a superior fit to customer needs.

For the strategizing executive the key question is which products should be developed and which markets should be served. In many cases the temptation is to be everything to everybody – making a wide range of products and serving as many clients as possible.

However, a number of practical constraints inhibit companies from taking such an *unfocused* approach to the market. Companies that do not focus on a limited set of *product-market combinations* run the risk of encountering a number of major problems:

- *Low economies of scale*. Being unfocused is expensive, because of the low economies of scale that can be achieved. In general, the less specialized the company, the lower the opportunities to organize the activity system efficiently and leverage the resource base.
- *Slow organizational learning*. Being involved in a multitude of products and markets generally slows the organization's ability to build up specific knowledge and capabilities. In general, the less specialized the company, the lower the opportunity to develop a distinctive activity system and resource base.
- *Unclear brand image*. Unfocused companies have the added disadvantage of having a fuzzy image in the market. In general, companies that stand for everything tend to stand out in nothing.
- *Unclear corporate identity*. The lack of clear external image is usually compounded by a lack of internal identity within unfocused organizations. In general, a company with highly diversified activities will have difficulty explaining why its people are together in the same company.
- *High organizational complexity*. Highly diverse products and customers also create an exponential increase in organizational complexity. In general, the less specialized the company, the lower the opportunity to keep the organization simple and manageable.
- *Limits to flexibility*. Being all things to all people is often physically impossible due to the need to specify procedures, routines, systems and tools. In general, less specialized firms are often forced into certain choices due to operational necessity.

For these reasons, companies need to focus on a limited number of businesses and within each business on a limited group of customers and a limited set of products. This focus should not be arbitrary – the challenge for strategizing executives is to understand which businesses are (or can be made to be) structurally attractive and how their firm can gain a competitive advantage within each business, by offering specific value propositions to selected customer segments.

Determining a focus starts by looking for the *boundaries* of a business – how can executives draw meaningful delineation lines in the environment, distinguishing one arena of competition from another, so that they can select some and ignore others? Ideally, the environment would be made up of neatly compartmentalized businesses, with clear borders separating them. In reality, however, the picture is much messier. While there are usually certain clusters of buyers and suppliers interacting more intensely with one another, suggesting that they are operating in the same business, there are often numerous exceptions to any neat classification scheme. To explore how a business can be defined, it is first necessary to specify how a business differs from an 'industry' and a 'market'.

Delineating Industries

An industry is defined as a group of firms making a similar type of product or employing a similar set of value-adding processes or resources. In other words, an industry consists of producers that are much alike – there is *supply side similarity* (Kay, 1993). The simplest way to draw an industry boundary is to use product similarity as delineation criterion. For instance, British Airways can be said to be in the airline industry, along with many other

providers of the same product, such as Delta, Singapore Airlines and Ryan Air. However, an industry can also be defined on the basis of activity system similarity (e.g. consulting industry and mining industry) or resource similarity (e.g. information technology industry and oil industry).

Economic statisticians tend to favor fixed industry categories based on product similarity and therefore most figures available about industries are product-category based, often making use of Standard Industrial Classification (SIC) codes. Strategists, on the contrary, like to challenge existing definitions of an industry, for instance by regrouping them on the basis of underlying value-adding activities or resources. Take the example of Swatch – how did it conceptualize which industry it was in? If they had focused on the physical product and the production process, then they would have been inclined to situate Swatch in the watch industry. However, Swatch also viewed its products as fashion accessories, placing emphasis on the key value-adding activities of fashion design and marketing. On this basis, Swatch could just as well be categorized as a member of the fashion industry (Porac, Thomas & Baden-Fuller, 1989). For the strategizing executive, the realization that Swatch can be viewed in both ways is an important insight. As creating a competitive advantage often comes from doing things differently, rethinking the definition of an industry can be a powerful way to develop a unique product offering.

Figure 6.2 gives four examples of traditionally defined *industry columns,* which Porter (1980) draws not top-down, but left-right, using the term *value system*. These columns start with *upstream industries*, which are involved in the extraction/growing of raw materials and their conversion into inputs for the manufacturing sector. Downstream industries take the output of manufacturing companies and bring them to clients, often adding a variety of services into the product mix. In practice, industry columns are not as simple as depicted in figure 6.2, as each industry has many different industries as suppliers and usually many different industries as buyers.

A second limitation of the industry columns shown in figure 6.2 is that they are materials-flow oriented – industry boundaries are drawn on the basis of product similarity, while strategists might want to take a different angle on defining the industry. The darker colored blocks are some examples of alternative industry definitions, but one can imagine many more; not only broader definitions, but also more narrow ones. For instance, it could be argued that clothing retailers with physical stores are in a distinct industry as opposed to internet/mail-order retailers.

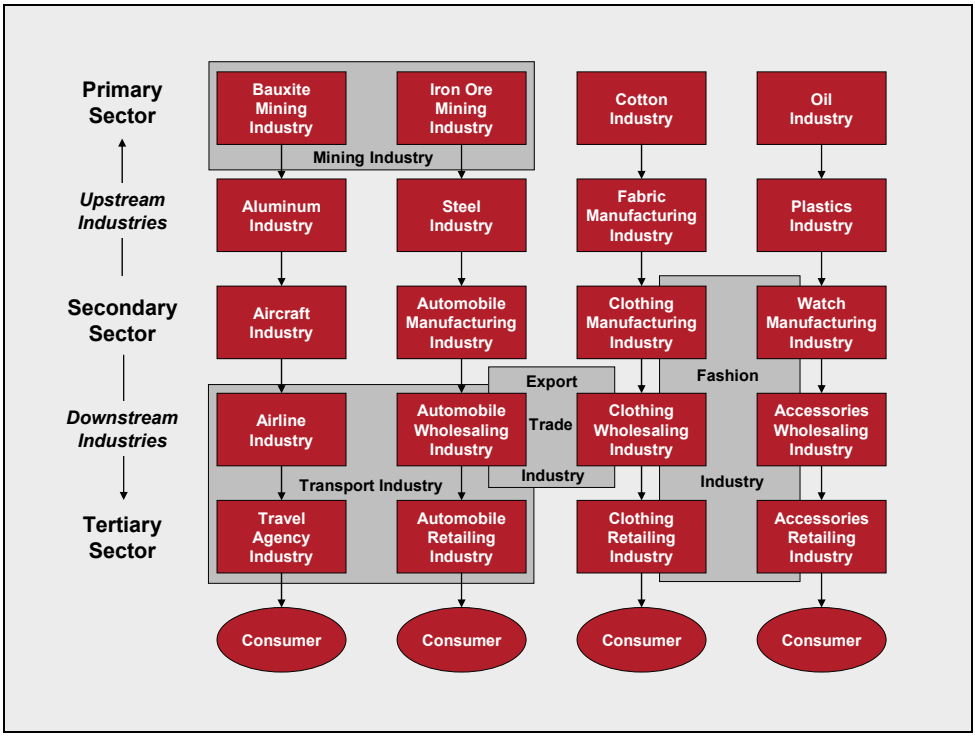
A further downside of the industry column figure is that the 'materials-flow' angle does not really suit the two-thirds of the economy that is involved in services. Understanding who are the buyers and the suppliers of insurance, education, consultancy, advertising and health care requires a different way of conceiving the industry column than looking at the flow of goods. Generally, for each different type of service a different value system will exist, with a distinct web of suppliers and buyers.

Segmenting Markets

While economists see the market as a place where supply and demand meet, in the business world a market is usually defined as a group of customers with similar needs. In other words, a market consists of buyers whose demands are much alike – *demand side similarity*. For instance, there is a market for air transportation between London and Jamaica, which is a different market than for air transportation between London and Paris – the customer needs are different and therefore these products cannot be substituted for one another. But customers can substitute a British Airways flight London-Paris for one by Air France, indicating that both companies are serving the same market.

Yet, this market definition (London-Paris air transport) might not be the most appropriate, if in reality many customers are willing to substitute air travel by rail travel, taking Le Shuttle through the channel tunnel, or by ferry. In this case, there is a broader London-Paris transportation market, and air transportation is a specific *market segment*. If many customers are willing to substitute physical travel by teleconferencing or other telecommunications methods, the market might need to be defined as the 'London-Paris meeting market'.

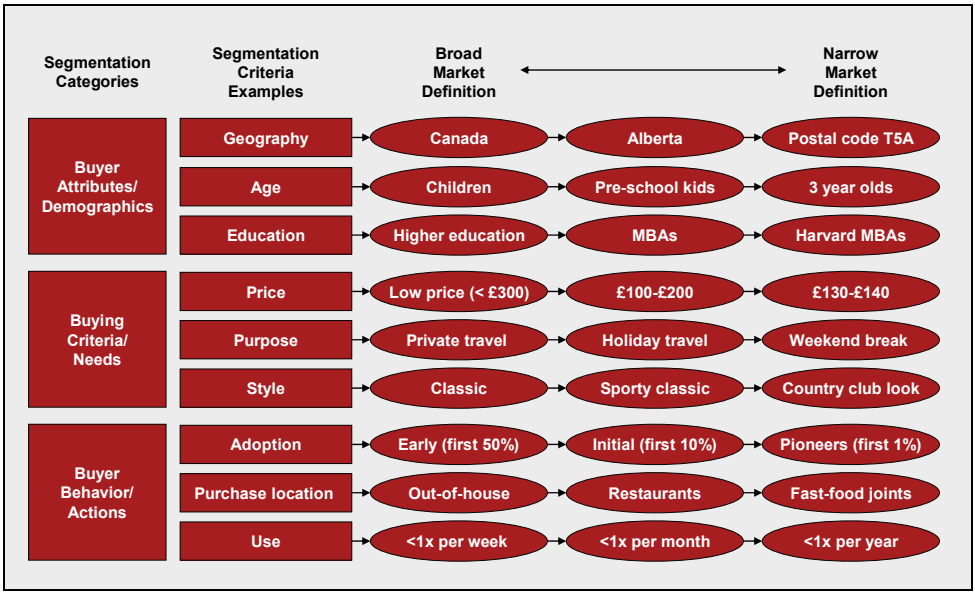
FIGURE 6.2
Alternative industry categorizations



As with industries, there are many ways of defining markets, depending on which buyer characteristics are used to make a clustering. In figure 6.3, a number of examples are given of segmentation criteria. The first group of segmentation criteria is based on buyer attributes that are frequently thought to be important predictors of actual buying criteria and buyer behavior. Such customer characteristics are commonly used to group potential clients because this information is objective and easily available. However, the pitfall of segmenting on the basis of buyer attributes is that the casual link between characteristics and actual needs and behaviors is often rather tenuous – not all Canadians need hockey sticks and not all 3 year olds nag their parents while shopping. In other words, the market can be segmented on the basis of any demographic characteristic (e.g. income, family composition, employment), but this might not lead to meaningful groups of customers with similar needs and buying behavior.

Therefore, instead of using buyer attributes as *indirect* – predictive – measures of what clients probably want, segments can also be *directly* defined on the basis of buying criteria employed and/or buyer behaviors exhibited. The advantage is that segments can then be identified with clearly similar wishes and/or behaviors. The disadvantage is that it is very difficult to gather and interpret information on what specific people want and how they really act.

FIGURE 6.3
Alternative market categorizations



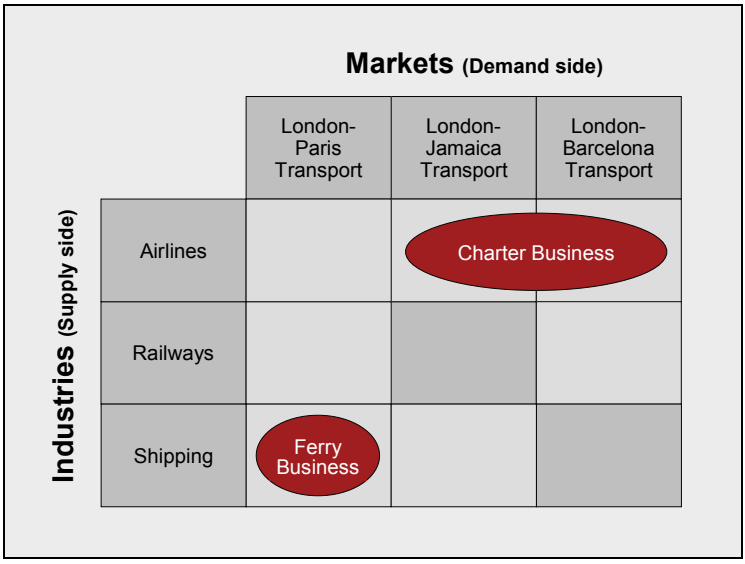
For strategists, one of the key challenges is to look at existing categorizations of buyers and to wonder whether a different segmentation would offer new insights and new opportunities for developing a product offering specifically tailored to their needs. As with the redefining of industry boundaries, it is often in the reconceptualization of market segments that a unique approach to the market can be found.

Defining and Selecting Businesses

A business is as a set of related product-market combinations. The term 'business' refers neither to a set of producers nor a group of customers, but to the domain where the two meet. In other words, a business is a competitive arena where companies offering similar products serving similar needs rival against one another for the favor of the buyers. Hence, a business is delineated in both industry and market terms (see figure 6.4). Typically, a business is narrower than the entire industry and the set of markets served is also limited. For instance, within the airline industry the charter business is usually recognized as rather distinct. In the charter business, a subset of the airline services is offered to a number of tourist markets. Cheap flights from London to Jamaica and from London to Barcelona fall within this business, while service levels will be different than in other parts of the airline industry. It

should be noted, though, that just as with industries and markets, there is no best way to define the boundaries of a business (Abell, 1980).

FIGURE 6.4
Industries, markets and businesses



As stated before, companies cannot afford to be unfocused, operating superficially in a whole range of businesses. They must direct their efforts by focusing in two ways:

- *Selecting a limited number of businesses*. The first constraint that companies need to impose on themselves is to choose a limited array of businesses within which they wish to be successful. This essential strategic challenge is referred to as the issue of *corporate configuration* and will be examined in more detail in chapter 6 (multi-business level strategy). Here it suffices to say that firms need to analyze the structural characteristics of interesting businesses to be able to judge whether they are attractive enough for the firm, or can be made to be attractive.
- *Focusing within each selected business*. Even within the limited set of businesses selected, firms need to determine what they want to be and what they want to leave aside. To be competitive, it is necessary to choose a number of distinct market segments and to target a few special product offerings to meet these customers' needs. As illustrated in figure 6.1, these specific product offerings in turn need to be aligned with a focused activity system and resource base.

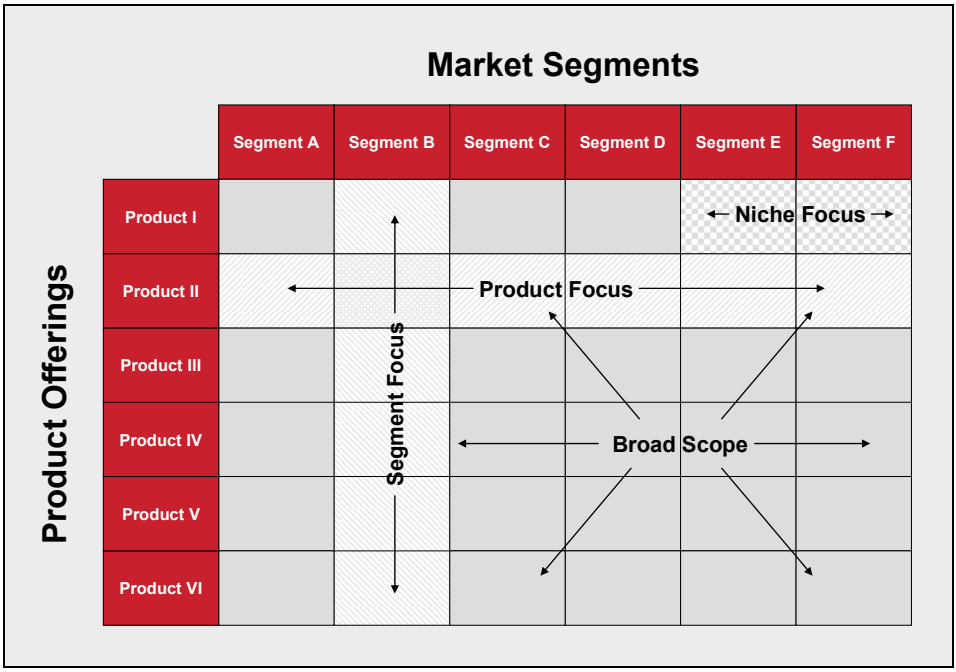
This act of focusing the overall business system to serve the particular needs of a targeted group of buyers, in a way that distinguishes the firm vis-à-vis rivals, is called *positioning*. This positioning of the firm in the business requires a clearly tailored product offering (*product positioning*), but also an activity system and resource base that closely fit with the demands of the specific group of customers and competitors being targeted.

Positioning within a Business

Positioning is concerned with both the questions of 'where to compete' and 'how to compete' (Porter, 1980). Determining in which product-market combinations within a business a firm wants to be involved is referred to as the issue of *competitive scope*. Finding a way to beat rivals and win over customers for a product offering is the issue of *competitive advantage*. The two questions are tightly linked, because firms need to develop a specific advantage to be competitive within a specific product-market domain. If they try to use the same competitive advantage for too many dissimilar products and customers, they run the risk of becoming unfocused.

In selecting a competitive scope, firms can vary anywhere between being widely oriented and very tightly focused. Firms with a *broad scope* compete in a large number of segments within a business, with varied product offerings. Firms with a *narrow scope* target only one, or just a few, customer segments and have a more limited product line (see figure 6.5). If there is a small part of the business with very specific demands, requiring a distinct approach, firms can narrowly focus on this *niche* as their competitive scope. In between these two extremes are firms with a *segment focus* and firms with a *product focus*, but in practice many other profiles are also possible.

FIGURE 6.5
Determining competitive scope



In developing a competitive advantage, firms have many dimensions along which they can attempt to outdo their rivals. Some of the most important bases of competitive advantage are the following:

- *Price*. The most straightforward advantage a firm can have in a competitive situation is the ability to charge a lower price. All things being equal, buyers generally prefer to pay

the lowest amount necessary. Hence, when purchasing a commodity product or service, most customers will be partial to the lowest priced supplier. And even when selecting among differentiated products, many customers will be inclined to buy the cheapest or at least the cheapest within a subgroup of more comparable products. For a firm wanting to compete on price, the essential point is that it should have a *low cost* product offering, activity system and resource base to match the price positioning. After all, in the long run a firm can only survive at a lower price level if it has developed a business system that can sustainably operate at a lower cost level.

- *Features*. Firms can also distinguish their product offerings by having different intrinsic functional characteristics than competing offerings. There are many ways to make a product or service different, for instance by changing its size, smell, taste, color, functionality, compatibility, content, design or style. An ice cream manufacturer can introduce a new flavor and more chunky texture, a motorcycle producer can design a special 'low rider' model for women, a pay TV company can develop special channels for dog owners and science fiction addicts, and a utility company can offer environmentally-friendly electricity. To be able to compete on each of these product features, firms need to command different specialized resources and activity systems. In some cases, they require significant technological knowledge and a technically sophisticated activity system, while in other cases design capabilities, marketing prowess or a satellite infrastructure are essential to the functioning of the business system.
- *Bundling*. Another way to offer a uniquely different value proposition is to sell a package of products and/or services 'wrapped together'. By bundling a number of separate elements into a package, the customer can have the convenience of 'one stop shopping', while also having a family of related products and/or services that fit together well. So, for instance, many customers prefer to purchase their software from one supplier because this raises the chance of compatibility. In the chocolate industry, the leading manufacturer of chocolate making machines, Rademakers, was able to gain a competitive advantage by bundling its machines with various services, such as installation, repair, spare parts and financing.
- *Quality*. When competing with others, a firm's product offering doesn't necessarily have to be fundamentally different, it can just be better. Customers generally appreciate products and services that exhibit superior performance in terms of usability, reliability and durability, and are often willing to pay a premium price for such quality. Achieving excellent quality can be done along many fronts, for instance through the materials used, the people involved, the manufacturing process employed, the quality assurance procedures followed, or the distribution system used.
- *Availability*. The method of distribution can in itself be the main competitive edge on which a firm bases its positioning. Having a product available at the right place, at the right moment and in the right way, can be much more important to customers than features and quality. Just ask successful ice cream manufacturers – most of their revenues are from out-of-doors impulse sales, so they need to have their products available in individually wrapped portions at all locations where people have the urge to indulge. In the same way, Avon's cosmetics are not primarily sold because of their uniqueness or low price, but because of the strength of their 3 million salespeople, who can be at the right place at the right time.
- *Image*. In the competition for customers' preference, firms can also gain an advantage by having a more appealing image than their rivals. In business-to-consumer markets this is particularly clear when looking at the impact of *brands*. Consumers often feel attracted to

brands that project a certain image of the company or the products it sells. Brands can communicate specific values that consumers want to be associated with (Nike's 'just do it'), or can help to build trust among consumers who have too little information to base their product choices on (GE's 'we bring good things to life'). But even in business-to-business markets buyers often suffer from a shortage of information about the available product offerings or lack the time to research all possible suppliers. Therefore, the image of suppliers, mostly in terms of their *standing* ('a leading global player') and *reputation* ('high quality service') can be essential to be considered at all (to be 'short-listed') and to be trusted as business partner.

- *Relations*. Good branding can give customers the impression that they know the supplier, without actually being in direct contact. Yet, having a direct relation with customers can in itself be a potent source of competitive advantage. In general, customers prefer to know their suppliers well, as this gives them a more intimate knowledge of the product offering being provided. Having a relationship with a supplier can also give the customer more influence on what is offered. But besides these rational points, customers often value the personal contact, the trust and the convenience of having a long-standing relationship as well. For suppliers this means that they might acquire a competitive edge by managing their customer relationships well. To do so, however, does imply that the activity system and resource base are fit to fulfill this task.

The type of competitive advantage that a firm chooses to pursue will be influenced by what the targeted group of buyers find important. These factors of importance to potential clients are referred to as *value drivers* – they are the elements responsible for creating value in the eyes of the customer. Which value drivers a firm will want to base its value proposition on is a matter of positioning.

According to Porter (1980) all the specific forms of competitive advantage listed above can be reduced to two broad categories, namely *lower cost* and *differentiation*. On the one hand, firms can organize their business systems in such a manner that, while their products or services are largely the same as other manufacturers, their overall cost structure is lower, allowing them to compete on price. On the other hand, firms can organize their business systems to supply a product or service that has distinctive qualities compared to rival offerings. According to Porter, these two forms of competitive advantage demand fundamentally different types of business systems and therefore are next to impossible to combine. Firms that do try to realize both at the same time run the risk of getting *stuck in the middle* – not being able to do either one properly.

Treacy and Wiersema (1995) argue that there are actually three generic competitive advantages, each requiring a fundamentally different type of business system (they speak of three distinctive *value disciplines*). They, too, warn firms to develop an internally consistent business system focused on one of these types of competitive advantage, avoiding a 'mix-and-match' approach to business strategy:

- *Operational excellence*. Firms striving for operational excellence meet the buyers' need for a reliable, low cost product offering. The activity system required to provide such no-frills, standardized, staple products, emphasizes a 'lean and mean' approach to production and distribution, with simple service.
- *Product leadership*. Firms taking the route of product leadership meet the buyers' need for special features and advanced product performance. The activity system required to provide such differentiated, state-of-the-art products, emphasizes innovation and the creative collaboration between marketing and R&D.

- *Customer intimacy*. Firms deciding to focus on customer intimacy meet the buyers' need for a tailored solution to their particular problem. The activity system required to provide such a client-specific, made-to-measure offering, emphasizes flexibility and empowerment of the employees close to the customer.

Other strategy researchers, however, argue that there is no such thing as *generic competitive strategies* that follow from two or three broad categories of competitive advantage (e.g. Baden-Fuller & Stopford, 1995). In their view, there is a sheer endless variety of ways in which companies can develop a competitive advantage, many of which do not fit into the categories outlined by Porter or Treacy and Wiersema – in fact, finding a new type of competitive advantage might be the best way of obtaining a unique position in a business.

6.2.2 The Activity System

To be able to actually make what it wants to sell, a firm needs to have an activity system in place. An activity system is an integrated set of value creation processes leading to the supply of product and/or service offerings. Whether goods are being manufactured or services are being provided, each firm needs to perform a number of activities to successfully fill the customer's wants. As these value-adding activities need to be coordinated and linked together, this part of the business system is also frequently referred to as the *value chain* (Porter, 1985).

Activity systems can vary widely from industry to industry. The activity system of a car manufacturer is quite distinct from that of an advertising agency. Yet even within an industry there can be significant differences. Most 'bricks and mortar' bookstores have organized their value chain differently than on-line book retailers like Amazon.com. The activity systems of most 'hub-and-spoke' airline companies hardly resemble that of 'no-frills' carriers such as Southwest in the US and easy Jet in Europe.

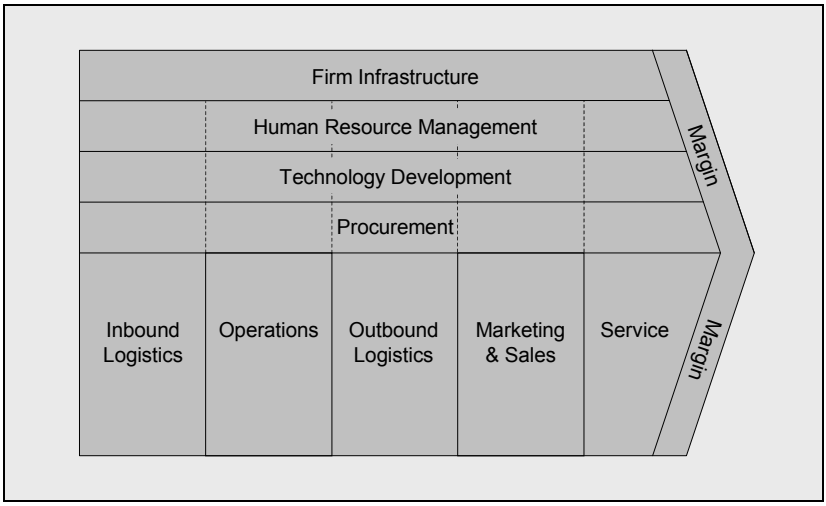
While these examples point to radically different activity systems, even firms that subscribe to the same basic model can apply it in their own particular way. Fast-food restaurants such as McDonald's and Burger King may employ the same basic model, but their actual activity systems differ in quite a few ways. The same goes for the PC manufacturers HP and IBM, who share a similar type of activity system, but who still differ on many fronts. 'On-line mass-customization' PC manufacturer Dell, on the other hand, has a different model and consequently a more strongly differing activity system than HP and IBM.

Having such a distinct activity system often provides the basis for a competitive advantage. A unique value chain allows a firm to offer customers a unique value proposition, by doing things better, faster, cheaper, nicer or more tailored than competing firms. Developing the firm's activity system is therefore just as strategically important as developing new products and services.

Although activity systems can differ quite significantly, some attempts have been made to develop a general taxonomy of value adding activities that could be used as an analytical framework (e.g. Day, 1990; Norman & Ramirez, 1993). By far the most influential framework is Porter's value chain, which distinguishes *primary* activities and *support* activities (see figure 6.6). Primary activities "are the activities involved in the physical creation of the product and its sale and transfer to the buyer, as well as after-sale assistance" (Porter, 1985; 16). Support activities facilitate the primary process, by providing purchased inputs, technology, human resources and various firm-wide functions. The generic categories of primary activities identified by Porter are:

- *Inbound logistics*. Activities associated with receiving, storing, and disseminating inputs, including material handling, warehousing, inventory control, vehicle scheduling, and returns to suppliers.
- *Operations*. Activities associated with transforming inputs into final products, including machining, packaging, assembly, equipment maintenance, testing, printing, and facility operations.
- *Outbound logistics*. Activities associated with collecting, storing, and physically distributing products to buyers, including warehousing, material handling, delivery, order processing, and scheduling.
- *Marketing and sales*. Activities associated with providing a means by which buyers can purchase the product and inducing them to do so, including advertising, promotion, sales force, quoting, channel selection, channel relations, and pricing.
- *Service*. Activities associated with providing service to enhance or maintain the value of products, including installation, repair, training, parts supply, and product adjustment.

FIGURE 6.6
The generic value chain (Porter, 1985)



For service industries Porter argues that the specific activities will be different, and might be performed in a different order, but can still be subdivided into these five generic categories. To ensure that the primary activities can be carried out, each firm also needs to organize four types of support activities:

- *Procurement*. Activities associated with the purchasing of inputs to facilitate all other activities, including vendor selection, negotiations, contracting, and invoice administration.
- *Technology development*. Activities associated with the improvement of technologies throughout the firm, including basic research, product and process design, and procedure development.

- *Human resource management*. Activities associated with the management of personnel throughout the organization, including recruiting, hiring, training, development, and compensation.
- *Firm infrastructure*. Firm infrastructure consists of all general activities that support the entire value chain, including general management, planning, finance, accounting, legal, government affairs, and quality management.

The uniqueness of the activity system, and its strength as the source of competitive advantage, will usually not depend on only a few specialized activities, but on the extraordinary configuration of the entire activity system. An extraordinary configuration multiplies the distinctness of a particular activity system, while often raising the barrier to imitation (Porter, 1996; Amit & Zott, 2000).

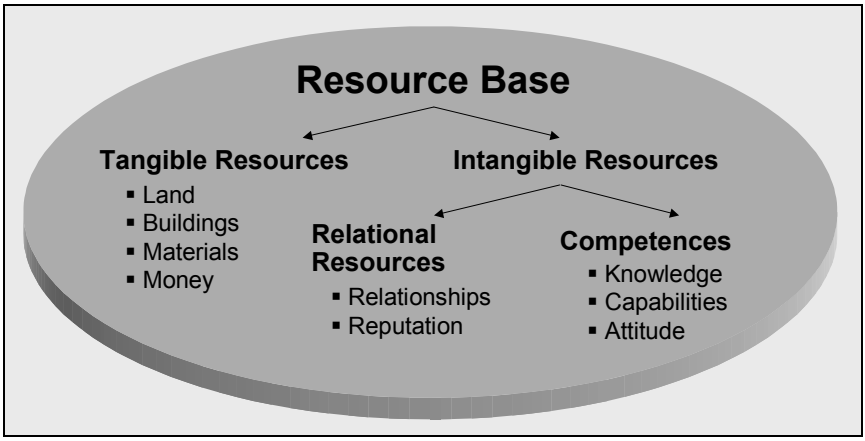
6.2.3 The Resource Base

To carry out activities and to produce goods and services, firms need resources. A firm's resource base includes all means at the disposal of the organization for the performance of value-adding activities. Other authors prefer the term *assets*, to emphasize that the resources belong to the firm (e.g. Dierickx & Cool, 1989; Itami, 1987).

Under the broad umbrella of *resource-based view of the firm*, there has been much research into the importance of resources for the success and even existence of firms (e.g. Penrose, 1959; Wernerfelt, 1984; Barney, 1991). No generally accepted classification of firm resources has yet emerged in the field of strategic management, however the following major distinctions are commonly made:

- *Tangible vs. intangible resources*. Tangible resources are all means available to the firm that can physically be observed (touched), such as buildings, machines, materials, land and money. Tangibles can be referred to as the 'hardware' of the organization. Intangibles, on the other hand, are the 'software' of the organization. Intangible resources cannot be touched, but are largely carried within the people in the organization. In general, tangible resources need to be purchased, while intangibles need to be developed. Therefore, tangible resources are often more readily transferable, easier to price and usually are placed on the balance sheet.
- *Relational resources vs. competences*. Within the category of intangible resources, relational resources and competences can be distinguished. Relational resources are all of the means available to the firm derived from the firm's interaction with its environment (Lowendahl, 1997). The firm can cultivate specific relationships with individuals and organizations in the environment, such as buyers, suppliers, competitors and government agencies, which can be instrumental in achieving the firm's goals. As attested by the old saying, "it's not what you know, but whom you know", *relationships* can often be an essential resource (see Chapter 7 for a further discussion). Besides direct relationships, a firm's *reputation* among other parties in the environment can also be an important resource. Competence, on the other hand, refers to the firm's fitness to perform in a particular field. A firm has a competence if it has the knowledge, capabilities and attitude needed to successfully operate in a specific area.

FIGURE 6.7
Types of firm resources



This description of competences is somewhat broad and therefore difficult to employ. However, a distinction between knowledge, capability and attitude (Durand, 1996) can be used to shed more light on the nature of competences:

- *Knowledge*. Knowledge can be defined as the whole of rules (know-how, know-what, know-where and know-when) and insights (know-why) that can be extracted from, and help make sense of, information. In other words, knowledge flows from, and influences, the interpretation of information (Dretske, 1981). Examples of knowledge that a firm can possess are market insight, competitive intelligence, technological expertise, and understanding of political and economic developments.
- *Capability*. Capability refers to the organization's potential for carrying out a specific activity or set of activities. Sometimes the term *skill* is used to refer to the ability to carry out a narrow (functional) task or activity, while the term capability is reserved for the quality of combining a number of skills. For instance, a firm's capability-base can include narrower abilities such as market research, advertising and production skills, that if coordinated could result in a capability for new product development (Stalk, Evans & Shulman, 1992).
- *Attitude*. Attitude refers to the mindset prevalent within an organization. Sometimes the terms *disposition* and will are used in the same sense, to indicate how an organization views and relates to the world. Although ignored by some writers, every sports coach will acknowledge the importance of attitude as a resource. A healthy body (tangible resource), insight into the game (knowledge), speed and dexterity (capabilities) – all are important, but without the winning mentality a team will not get to the top. Some attitudes may change rapidly within firms, yet others may be entrenched within the cultural fabric of the organization – these in particular can be important resources for the firm. A company's attitude can, for instance, be characterized as quality-driven, internationally-oriented, innovation-minded and/or competitively-aggressive.

It must be noted that the term 'competences' is used in many different ways, partially due to the ambiguous definition given by its early proponents (Prahalad & Hamel, 1990). It is often used as a synonym for capabilities, while Prahalad & Hamel seem to focus more on

technologically-oriented capabilities ("how to coordinate diverse production skills and integrate multiple streams of technologies"). Others (e.g. Durand, 1996) have suggested that a firm has a competence in a certain area, when the firm's underlying knowledge base, capabilities and attitude are all aligned. So, Honda's engine competence is built on specific knowledge, development capabilities and the right predisposition. Wal-Mart's inventory control competence depends on specific information technology knowledge, coordination capabilities and a conducive state of mind. Virgin Airway's service competence combines customer knowledge, adaptation capabilities and a customer-oriented attitude.

As in the case of industries, markets, and businesses, employing the concepts of tangible and intangible resources is quite difficult in practice. Two problems need to be overcome – resources are difficult to categorize, but worse yet, often difficult to recognize. The issue of categorization is a minor one. For some resources it is unclear how they should be classified. Are human resources tangible or intangible? Problematically, both. In humans, hardware and software are intertwined – if an engineer's expertise is required, the physical person usually needs to be hired. Knowledge, capabilities and attitudes need human carriers. Sometimes it is possible to separate hardware and software, by making the intangibles more tangible. This is done by 'writing the software down'. In such a manner, knowledge can be *codified*, for instance in a patent, a capability can be captured in a computer program and a relationship can be formalized in a contract. Sometimes intangibles become more tangible, as they become attached to physical carriers – for instance, attitude can be embodied by a person or a symbol, while reputation becomes attached to a brand.

More important is the problem of resource identification. Tangible resources, by their very nature, are relatively easy to observe. Accountants keep track of the financial resources, production executives usually know the quality of their machinery and stock levels, while the personnel department will have an overview of all people on the pay role. Intangible resources, on the other hand, are far more difficult to identify (e.g. Grant, 1991; Itami, 1986). With whom does the firm have a relationship and what is the state of this relationship? What is the firm's reputation? These relational resources are hard to pin down. Competences are probably even more difficult to determine. How do you know what you know? Even for an individual it is a formidable task to outline areas of expertise, let alone for a more complex organization. Especially the *tacit* (non-articulated) nature of much organizational knowledge makes it difficult to identify the firm's knowledge base (Polanyi, 1958; Nonaka and Konno, 1998). The same is true for a firm's capabilities, which have developed in the form of *organizational routines* (Nelson & Winter, 1982). Likewise, the firm's attitudes are difficult to discern, because all people sharing the same disposition will tend to consider themselves normal and will tend to believe that their outlook is 'a matter of common sense' (see Chapter 2). Hence, firms intent on identifying their competences find that this is not an easy task.

While an overview of the firm's resource-base is important in itself, a strategizing executive will want to compare the firm's resources to other companies to determine their relative strength. In other words, are the firm's resources unique, superior to, or inferior to the resources of (potential) competitors? This type of analysis is particularly difficult, as comparison requires insight into other firms' resource-bases. Especially the identification of other firms' intangible resources can be quite arduous.

6.2.4 Sustaining Competitive Advantage

A firm has a *competitive advantage* when it has the means to edge out rivals when vying for the favor of customers. In the previous subsections it was argued that competitive advantage is rooted in a unique business system, whereby the resource base, activity system, and

product-market position are all aligned to provide goods and/or services with a superior fit to customer needs.

A competitive advantage is said to be *sustainable* if it cannot be copied, substituted or eroded by the actions of rivals, and is not made redundant by developments in the environment (Porter, 1980). In other words, sustainability depends on two main factors, competitive defendability and environmental consonance:

- *Competitive defendability*. Some competitive advantages are intrinsically easier to defend than others, either because they are difficult for rivals to imitate, or because rivals find it next to impossible to find an alternative route of attack. In general, a firm's competitive advantage is more vulnerable when it is based on only a limited number of distinct elements (e.g. a different packaging technology, a different delivery system, or different product colors). For rivals, imitating or substituting a few elements is comparatively easy. If, however, a firm's business system has an entirely different configuration altogether, the barriers to imitation and substitution are much higher. In such a case, it is said that a firm has a distinct *business model*. So, for instance, in the airline industry the traditional firms have tried to imitate some parts of the low cost service of Southwest in the U.S., and Ryanair and easy Jet in Europe, but have been largely unsuccessful because their business model as a whole is based on a different logic. Yet, many strategists note that the best defense is not to build walls around a competitive position to 'keep the barbarians out', but to have the ability to run faster than rivals – to be able to upgrade one's resources, activity system and product offering more rapidly than competitors. In this view, a competitive advantage is sustainable due to a company's capacity to stay one step ahead of rivals, *outpacing* them in a race to stay ahead (e.g. Gilbert and Strebel, 1992; Stalk, Evans and Shulman, 1992).
- *Environmental consonance*. The sustainability of a firm's competitive advantage is also threatened by developments in the market. Customer needs and wants are in constant flux, distribution channels can change, government regulations can be altered, innovative technologies can be introduced and new entrants can come into the competitive arena. All of these developments can undermine the fit between the firm's competitive advantage and the environment, weakening the firm's position (Rumelt, 1980).

Yet, these two factors for sustaining competitive advantage seem to pose opposite demands on the organization. Building a distinctive business system to fend off competition would suggest that a firm should remain true to its fundamental *strengths*, especially when it comes to unique resources and activities that it has built up over a prolonged period of time. On the other hand, environmental consonance requires a firm to continually adapt its business system to the demands and new *opportunities* in the market place. The tension created by these opposite pressures will be discussed in the following section.

6.3 THE TENSION BETWEEN MARKETS AND RESOURCES

There must be a fit between an organization and its environment. This point is often expressed in terms of the classic SWOT analysis tool that suggests that a sound strategy should match a firm's strengths (S) and weaknesses (W) to the opportunities (O) and threats (T) encountered in the firm's environment. The key to success is *alignment* of the two sides. Yet, fitting internal strengths and weaknesses to external opportunities and threats is often frustrated by the fact that the two sides pull in opposite directions – the distinctive resource base and activity system of a firm can point in a totally different direction than the

developments in their current markets. Take the example of Bally, in the 1990s the worldwide market leader in pinball machines. Their strength in the manufacturing of electromechanical games was no longer aligned with developments in the market, where young people were turning to video games, produced by companies such as Nintendo, Sega and Sony. As sales of pinball machines were quickly deteriorating, it was clear that Bally had to find a new fit with the market to survive. On the one hand, this meant that there was a strong pressure on Bally to adapt to market developments, for instance by upgrading its technology to also produce video games. On the other hand, Bally felt a strong pressure to exploit its current strength in electromechanical manufacturing, instead of building a new competence base from scratch. It was not self-evident for Bally how the demands for market adaptation and resource leveraging could be met simultaneously, as they seemed to be tugging the firm in diametrically opposite directions.

This tension arising from the partially conflicting demands of market adaptation and resource leveraging is referred to as the *tension between markets and resources*. In the following sections both sides of the tension will be examined in more detail.

6.3.1 The Demand for Market Adaptation

While adaptation to the environment is a vital requirement for the success of any organization, Bally had been very slow in responding to external developments ever since the introduction of Pac Man. Bally had not exhibited the ability to shift its product offering to follow changing customer preferences and to respond to new entrants in the gaming market. It had lost its leading position because it no longer fully understood 'the rules of the game' in its own market. As Bally drifted further and further away from developments in the market, the misalignment was threatening the survival of its business. 'Game over' was impending.

To counter this downward trend, Bally needed to identify an attractive market opportunity that it could exploit. Not a short-term sales opportunity, but a market position that could be defended against rival firms and potential new entrants over a longer period. Ideally, this market position would serve buyers willing and able to pay a premium price, and whose loyalty could be won, despite the efforts of the competition. This market position would also need to be largely immune to substitute products and should not make the firm overly dependent on strong suppliers. Once such an opportunity had been identified, it would be essential for Bally to reorganize itself to fully meet the demands of this new positioning.

Adapting to a new market position and subsequently following the many shifts in such factors as customer preferences, competitor moves, government regulations and distribution structures, can have a significant impact on a firm. It requires significant agility in changing the product offering, activity system and resource base to remain in constant alignment with the fluctuating external circumstances. For Bally adapting to the digital technology and software environment of the current gaming industry would have had far reaching consequences for its entire business system. Even if Bally decided to stick to electromechanical pinball machines and to target the home market of aging pinball wizards, the company would need to make significant alterations to its business system, getting to know new distribution channels and developing new marketing competences.

6.3.2 The Demand for Resource Leveraging

Yet, for Bally it was essential to build on the resource base and activity system that it had already developed. It did not want to write off the investments it had made in building up a distinctive profile – it had taken years of acquiring and nurturing resources and fine-tuning

the activity system to reach its level of expertise. Its strength in electromechanical manufacturing and the development of large 'moving parts' games was much too valuable to casually throw away just because video games were currently in fashion.

However, building a new area of competence, it was understood, should not be considered lightly. It would take a considerable amount of time, effort and money to shift the resource base and reconfigure the activity system, while there would be many risks associated with this transformation process as well. On the other hand, the danger of attempting to exploit the firm's current resources would be to excel at something of increasing irrelevance. The pinball machine might be joining the buggy whip and the vacuum tube as a museum exhibit, with a real threat that Bally too could become history.

Eventually, the solution found by Bally was to give up on pinball machines altogether and to redirect its existing resources towards a much more attractive market opportunity – slot machines. This move allowed Bally to exploit its electromechanical manufacturing capability and game making expertise, while building a strong market position in fast growing market. But while Bally was able to find a synthesis, reconciling the two conflicting demands, not all companies are as successful. Nor do all executives agree on how the tension between markets and resources can best be tackled.

6.4 PERSPECTIVES ON BUSINESS LEVEL STRATEGY

Firms need to adapt themselves to market developments and they need to build on the strengths of their resource bases and activity systems. The main question that could potentially divide executives is 'who should be fitted to whom' – should an organization adapt itself to its environment or should it attempt to adapt the environment to itself? What should be the dominant factor driving a firm, its strengths or the opportunities? Should executives take the environment as starting point, choose an advantageous market position and then build the resource base and activity system necessary to implement this choice? Or should executives take the organization's resource base (and possibly also its activity system) as starting point, selecting and/or adapting an environment to fit with these strengths?

As before, the strategic management literature comes with strongly different views on how executives should proceed. The variety of opinions among strategy theorists is dauntingly large, with many incompatible prescriptions being given. Here, for the purpose of developing a dimension along which the differences of opinion can be measured, the two diametrically opposed positions will be identified and discussed. On the one side of the spectrum, there are those executives who argue that the market opportunities should be leading, while implying that the organization should adapt itself to the market position envisioned. This point of view is called the *outside-in perspective*. At the other end of the spectrum, many executives believe that competition eventually revolves around rivaling resource bases and that firms must focus their strategies on the development of unique resources and activity systems. They argue that product-market positioning is a tactical decision that can be taken at a latter moment. This view is referred to as the *inside-out perspective*.

6.4.1 The Outside-in Perspective

Executives with an outside-in perspective believe that firms should not be self-centered, but should continuously take their environment as starting point when determining their strategy. Successful companies, it is argued, are *externally-oriented* and *market-driven* (e.g. Day, 1990; Webster, 1994). They have their sights clearly set on developments in the market place

and are determined to adapt to the unfolding opportunities and threats encountered. They take their cues from customers and competitors, and use these signals to determine their own game plan (Jaworski and Kohli, 1993). For these successful companies, markets are leading, resources are following.

Therefore, for the outside-in directed executive, developing strategy begins with an analysis of the environment to identify attractive market opportunities. Potential customers must be sought, whose needs can be satisfied more adequately than currently done by other firms. Once these customers have been won over and a market position has been established, the firm must consistently defend or build on this position by adapting itself to changes in the environment. Shifts in customers' demands must be met, challenges from rival firms must be countered, impending market entries by outside firms must be rebuffed and excessive pricing by suppliers must be resisted. In short, to the outside-in executive the game of strategy is about market positioning and understanding and responding to external developments. For this reason, the outside-in perspective is sometimes also referred to as the *positioning approach* (Mintzberg, Ahlstrand and Lampel, 1998).

Positioning is not short-term opportunistic behavior, but requires a strategic perspective, because superior market positions are difficult to attain, but once conquered can be the source of sustained profitability. Some proponents of the outside-in perspective argue that in each market a number of different positions can yield sustained profitability. For instance, Porter suggests that companies that focus on a particular niche, and companies that strongly differentiate their product offering, can achieve strong and profitable market positions, even if another company has the lowest cost position (Porter, 1980, 1985). Other authors emphasize that the position of being market leader is particularly important (e.g. Buzell and Gale, 1987). Companies with a high market share profit more from economies of scale, benefit from risk aversion among customers, have more bargaining power towards buyers and suppliers, and can more easily flex their muscles to prevent new entrants and block competitive attacks.

Unsurprisingly, proponents of the outside-in perspective argue that insight into markets and industries is essential. Not only the general structure of markets and industries needs to be analyzed, but also the specific demands, strengths, positions and intentions of all major forces need to be determined. For instance, buyers must be understood, with regard to their needs, wants, perceptions, decision-making processes and bargaining chips. The same holds true for suppliers, competitors, potential market and/or industry entrants, and providers of substitute products (Porter, 1980, 1985). Once a executive knows 'what makes the market tick' – sometimes referred to as the *rules of the game* – a position can be identified within the market that could give the firm bargaining power *vis-à-vis* suppliers and buyers, while keeping competitors at bay. Of course, the wise executive will not only emphasize winning under the current rules with the current players, but will attempt to anticipate market and industry developments, and position the firm to benefit from these. Many outside-in advocates even advise firms to initiate market and industry changes, so that they can be the first to benefit from the altered rules of the game (this issue will be discussed in further length in chapter 8).

Proponents of the outside-in perspective readily acknowledge the importance of firm resources and activities for cashing in on market opportunities the firm has identified. If the firm does not have, or is not able to develop or obtain, the necessary resources to implement a particular strategy, then specific opportunities will be unrealizable. Therefore, executives should always keep the firm's strengths and weaknesses in mind when choosing an external position, to ensure that it remains feasible. Yet, to the outside-in strategist, the firm's current resource base should not be the starting point when determining strategy, but should merely

be acknowledged as a potentially limiting condition on the firm's ability to implement the best business strategy.

Actually, firms that are market-driven are often the first ones to realize that new resources and/or activities need to be developed and, therefore, are better positioned to build up a *first mover advantage* (Lieberman and Montgomery, 1988, 1998). Where the firm does not have the ability to catch up with other firms' superior resources, it can always enter into an alliance with a leading organization, offering its partner a crack at a new market opportunity.

6.4.2 The Inside-out Perspective

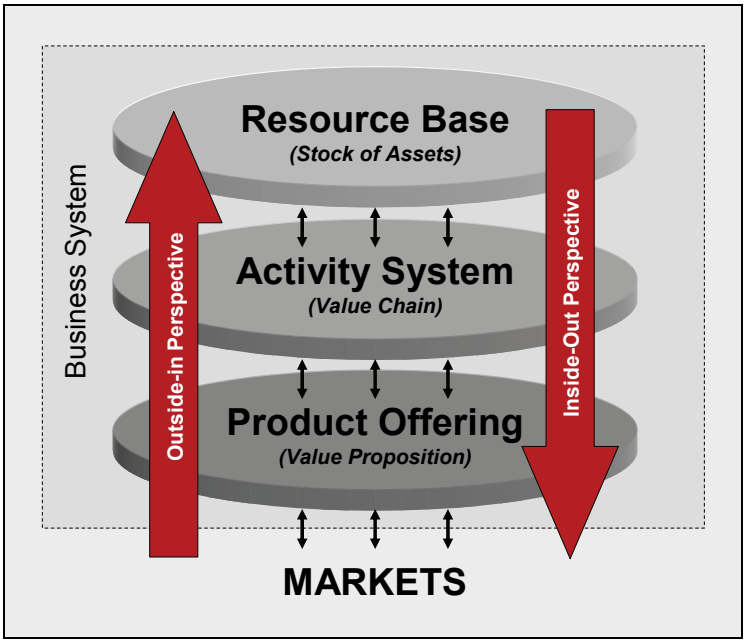
Executives adopting an inside-out perspective believe that strategies should not be built around external opportunities, but around a company's strengths. Successful companies, it is argued, build up a strong resource base over an extended period of time, which offers them access to unfolding market opportunities in the medium and short term. For such companies, the starting point of the strategy formation process is the question of which resource base it wants to have. The fundamental strategic issue is which difficult-to-imitate competences and exclusive assets should be acquired and/or further refined. Creating such a resource platform requires major investments and a long breath, and to a large extent will determine the culture and identity of the organization. Hence, it is of the utmost importance and should be the central tenet of a firm's strategy. Once the long-term direction for the building of the resource infrastructure has been set, attention can be turned to identifying markets opportunities where these specific strengths can be exploited. To the inside-out oriented executive the issue of market positioning is essential, as only a strong competitive position in the market will result in above average profitability. However, market positioning must take place within the context of the broader resource-based strategy and not contradict the main thrust of the firm – selected market positions must leverage the existing resource base, not ignore it. In other words, market positioning is vital, but tactical, taking place within the boundaries set by the resource-driven strategy. For success, resources should be leading, and markets following.

Many executives taking an inside-out perspective tend to emphasize the importance of a firm's competences over its tangible resources (physical assets). Their way of looking at strategy is referred to as the *competence-based* view (e.g. Prahalad & Hamel, 1990; Sanchez, Heene and Thomas, 1996) or *capabilities-based* view (e.g. Stalk, Evans & Shulman, 1992; Teece, Pisano & Shuen, 1997). These executives point out that it is especially the development of unique abilities that is such a strenuous and lengthy process, more so than the acquisition of physical resources, such as production facilities and computer systems. Some companies might be able to achieve a competitive advantage based on physical assets, but usually such tangible infrastructure is easily copied or purchased. However, competences are not readily for sale on the open market as 'plug-and-play' components, but need to be painstakingly built up by an organization through hard work and experience. Even where a company takes a short cut by buying another organization or engaging in an alliance, it takes significant time and effort to internalize the competences in such a way that they can be put to productive use. Hence, having distinctive competences can be a very attractive basis for competitive advantage, as rival firms generally require a long time to catch up (e.g. Collis and Montgomery, 1995; Barney, 1991). And even if competitors are successful at identifying embedded competences and imitating them, the company with an initial lead can work at upgrading its competences in a race to stay ahead – this is often referred to as the *dynamic capabilities* view (Teece, Pisano and Shuen, 1997).

To proponents of the inside-out perspective the 'dynamic capabilities' argument accentuates the importance of committing the organization to the long-term development of a

limited set of competences in which it can stay ahead of rivals. The 'nightmare scenario' for inside-out oriented strategists is where the firm flexibly shifts from one market demand to the next, building up an eclectic collection of unrelated competences, none of which are distinctive compared to competence-focused companies. In this scenario, a firm is fabulously market-driven, adaptively responding to shifts in the environment, but incapable of concentrating itself on forming the distinctive competence base needed for a robust competitive advantage over the longer term.

FIGURE 6.8
Two perspectives on shaping the business system



Most inside-out oriented executives also recognize the 'shadow side' of competences – they are not only difficult to learn, but difficult to unlearn as well. The laborious task of building up competences makes it hard to switch to new competences, even if that is what the market demands (e.g. Christensen, 1997; Rumelt, 1996). Companies far down the route of competence specialization, find themselves locked in by the choices made in the past. In the same way as few concert pianists are able (and willing) to switch to playing saxophone when they are out of a job, few companies are able and willing to scrap their competence base, just because the market is taking a turn for the worse. Becoming a concert pianist not only costs years of practice, but is a way of life, with a specific way of working, network and career path, making it very unattractive to make a mid-career shift towards a more marketable trade. Likewise, companies experience that their core competences can simultaneously be their *core rigidities*, locking them out of new opportunities (Leonard-Barton, 1995). From an inside-out perspective, both companies and concert pianists should therefore first try to build on their unique competences and attempt to find or create a more suitable market, instead of reactively adapting to the unpredictable whims of the current environment.

6.5 CONCLUSION

So, how do executives believe that a sustainable competitive advantage can be created? Should generals create a sustainable competitive advantage by first selecting a superior position in the environment (e.g. a mountain pass) and then adapt their military resources to this position, or should generals develop armies with unique resources and then try to let the battle take place where these resources can best be employed? Should football coaches first determine how they want the game to be played on the field and then attract and train players to fit with this style, or should coaches develop uniquely talented players and then adapt the team's playing style to make the best use of these resources? Whether a military, sports or business strategist, it is possible that people have preconceived views about the best approach to creating competitive advantage.

TABLE 6.1
Outside-in versus inside-out perspective

	Outside-in Perspective	**Inside-out Perspective**
Emphasis on	Markets over resources	Resources over markets
Orientation	Opportunity-driven (external potential)	Strength-driven (internal potential)
Starting point	Market demand & industry structure	Resource base & activity system
Fit through	Adaptation to environment	Adaptation of environment
Strategic focus	Attaining advantageous position	Attaining distinctive resources
Strategic moves	External positioning	Building resource base
Tactical moves	Acquiring necessary resources	External positioning
Competitive weapons	Bargaining power & mobility barriers	Superior resources & imitation barriers

In table 6.1 the main differences between the outside-in and inside-out perspectives have been summarized. And as in the previous chapters, these two opposite poles have been operationalized by formulating 24 corresponding statements that can be judged by executives. In table 6.2, the two sets of opposing policy statements are presented, which will be used for capturing executives' views on business level strategy. These statements will also be revisited in chapter 14.

TABLE 6.2
Statements representing the opposite perspectives

Outside-In Perspective		**Inside-Out Perspective**	
7.1	Flexibly responding to emerging market opportunities is the key to a successful strategy.	8.1	The firm that is best at developing unique capabilities will be most successful in the long run.
7.2	If companies jump at market opportunities, they can always develop the necessary competences and technologies to match.	8.2	If companies build distinctive competences, the market opportunities will soon follow.

7.3	Firms should adapt their core technologies and capabilities to fit new market demands.	8.3	Firms should stick to their core technologies and capabilities, seeking new markets where they can be applied.
7.4	Long-term profitability is best achieved by securing a defensible market position.	8.4	Long-term profitability is best achieved by building distinctive technologies and capabilities.
7.5	Firms should pursue the best market opportunities, not necessarily the ones closest the firm's current competences.	8.5	Firms should always stay close to their core competences.
7.6	Managers who understand market developments should lead strategy formulation.	8.6	Managers who understand know-how and capability development should lead strategy formulation.
7.7	A primary reason for corporate decline is that firms fail to adapt to shifting market opportunities.	8.7	A primary reason for corporate decline is that firms fall behind in the technology race.
7.8	The customer is always king.	8.8	Firms that quickly adapt to changing market conditions risk never developing a distinctive competence.
7.9	Firms that focus on building their core competences are usually too slow in capturing shifting market opportunities.	8.9	Having superior technologies and capabilities is more important than being first on the market.
7.10	The starting point of all strategizing should be the opportunities present in the market.	8.10	The starting point of all strategizing should be the distinctive capabilities of the firm.
7.11	Developing market positions is strategic, while obtaining the necessary technologies and capabilities is tactical.	8.11	Firms should say 'no' to current customers, if new demands draw the firm far away from its core competences.
7.12	Firms should jump at market opportunities first and worry how to acquire the necessary resources and skills later.	8.12	Building competences is strategic, while selecting market opportunities is tactical.

Chapter 7

CORPORATE LEVEL STRATEGY

7.1 INTRODUCTION

As firms seek growth, they have a number of directions in which they can expand. The most direct source of increased revenue is to enlarge their market share, selling more of their current product offerings in their current market segments. Besides this growth through focused *market penetration*, firms can also broaden their scope by extending their product range (*product development*) and/or move into neighboring market segments and geographic areas (*market development*). All of these growth options can be pursued while staying within the 'boundaries' of a single business (see figure 7.1). However, firms can broaden their scope even further, venturing into other lines of business, thus becoming *multi-business* corporations. Some multi-business firms are involved in only two or three businesses, but there are numerous corporations spanning twenty, thirty, or more, business areas.

This chapter deals with the specific strategic questions facing firms as they work on determining their multi-business scope. At this level, strategists must not only consider how to gain a competitive advantage in each line of business the firm has entered, but also which businesses they should be in at all. *Corporate level strategy* is about selecting an optimal set of businesses and determining how they should be integrated into the corporate whole. This issue of deciding on the best array of businesses and relating them to one another is referred to as the issue of *corporate configuration*.

As before, there seems to be a wide variety of views regarding the best approach to managing the corporate configuration. In this chapter these different perspectives will be examined and structured on the basis of the fundamental tension underlying the topic of corporate strategy – the tension between responsiveness and synergy. The chapter will again end with the identification of two opposite poles, which can be used in constructing a psychometric instrument.

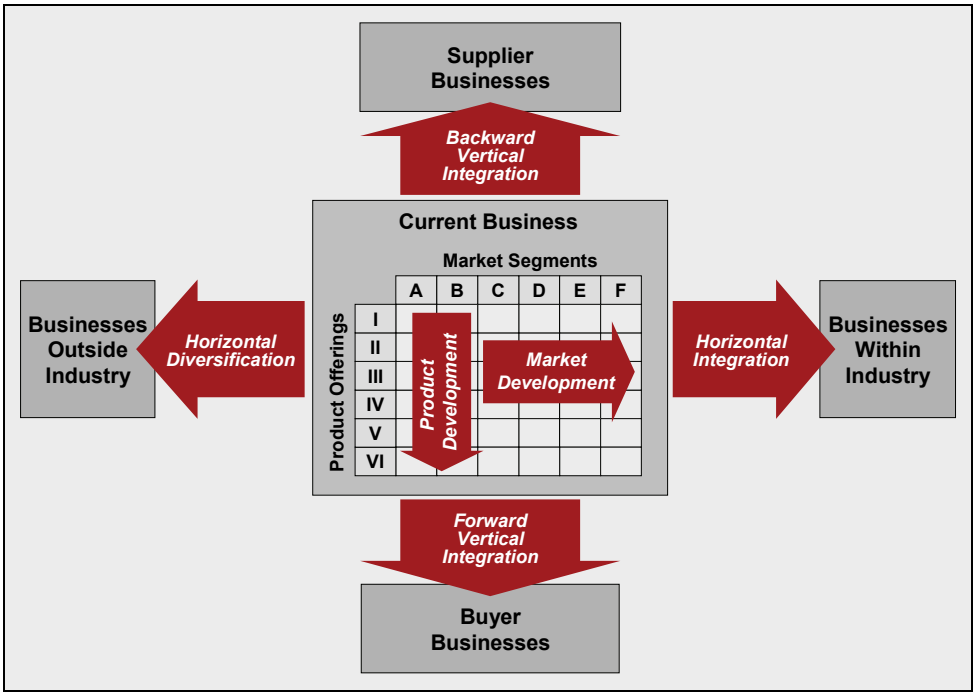
7.2 THE ISSUE OF CORPORATE CONFIGURATION

All multi-business firms have a particular configuration, either intentionally designed or as the result of emergent formation. Determining the configuration of a corporation can be disentangled into two main questions: What businesses should the corporation be active in and how should this group of businesses be managed? This first question of deciding on the business areas that will be covered by the company is called the topic of *corporate composition*. The second question, of deciding on the organizational system necessary to run the cluster of businesses, is labeled as the issue of *corporate management*. In the following pages both questions will be explored in more detail.

7.2.1 Corporate Composition

A multi-business firm is composed of two or more businesses. When a corporation enters yet another line of business, either by starting up new activities (*internal growth*) or by buying another firm (*acquisition*), this is called *diversification*. There are two general categories of diversification moves, vertical and horizontal. Vertical diversification, usually called *vertical integration*, is when a firm enters other businesses upstream or downstream within its own industry column (see chapter 6) – it can strive for backward integration by getting involved in supplier businesses or it can initiate forward integration by entering the businesses of its buyers. The firm can also integrate related businesses at the same tier in the industry column – an example of such *horizontal integration* is when a newspaper and magazine publisher moves into educational publishing, as Thomson did. If a firm expands outside of its current industry, the term 'integration' is no longer employed, and the step is referred to as straightforward *(horizontal) diversification* (see figure 7.1).

FIGURE 7.1
Corporate growth directions



The issue of corporate composition deals with the question of where the firm wants to have which level of involvement. Corporate level strategists must decide where to allocate resources, build up activities and try to achieve market sales. The issue of corporate composition can be further subdivided into two parts:

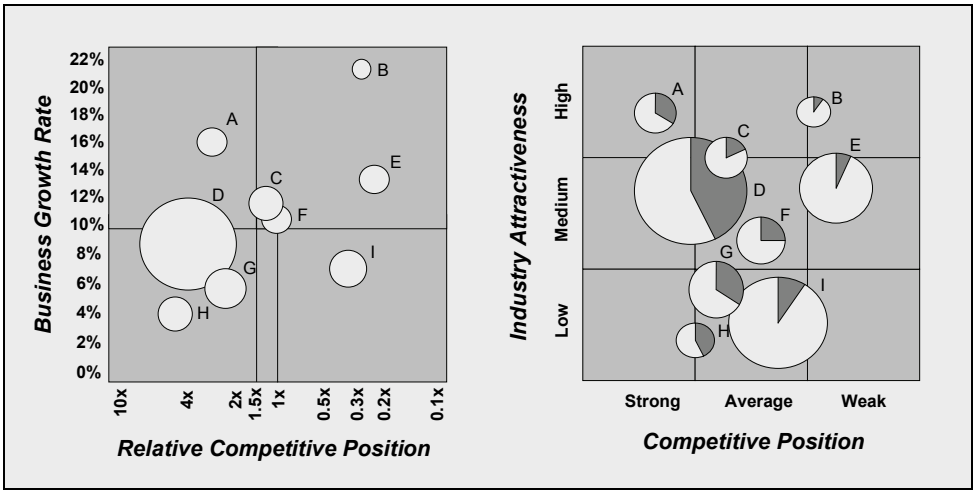
- *Corporate scope*. First, the composition of the corporation depends on the business areas selected. The more 'business components' chosen, the broader the scope of the

corporation. Deciding on the corporate scope is not only a matter of choosing out of the diversification options depicted in figure 7.1, but can also work in the opposite direction, as a firm can withdraw from a certain line of business, either by divesting, or closing down, its activities.

- *Corporate distribution*. The composition of the corporation also depends on the relative size of the activities in each business area covered. The distribution within the corporation is determined by the relative weight of each business component. Some corporations are equally active in all of their selected businesses, while other firms are more asymmetrical, placing more emphasis on just a few of their business activities. Deciding on the corporate distribution is a matter of determining which lines of business will receive more attention than others. Corporate level strategists need to decide which activities will be the focus of further growth and increased weight within the firm, allocating resources accordingly. However, they must also keep in mind that a certain balance within the corporation might be beneficial.

A common way of depicting the corporate composition is to plot all of the businesses in a *portfolio matrix*. The term 'portfolio' refers to the set of business activities carried out by the corporation. In a portfolio matrix each business activity is represented as a 'bubble' in a two dimensional grid, with the size of the bubble reflecting the revenue generated with that activity. The number of bubbles indicates the corporate scope, while the corporate distribution can be seen in the relative size of the bubbles. The intention of a portfolio matrix is not merely to give an overview of the corporate scope and distribution, but also to provide insight into the growth and profitability potential of each of the corporation's business activities and to judge the balance between the various business activities.

FIGURE 7.2
The BCG Matrix and GE Business Screen



There are different types of portfolio matrices in use, the most well known of which are the Boston Consulting Group Matrix (Hedley, 1977) and the General Electric Business Screen (Hofer and Schendel, 1978). All of these portfolio matrices are based on the same analytical format. Each business activity is mapped along two dimensions – one measuring the

attractiveness of the business itself, the other measuring the strength of the corporation to compete in the business. In other words, one axis is a measure of external *opportunity*, while the other axis is a measure of internal *strength* in comparison to rival firms. The major difference between the portfolio matrices is which measures are used along the axes. The BCG matrix employs two simple variables: business growth to determine attractiveness and relative market share to reflect competitive strength. The GE business screen, on the other hand, uses composite measures: both industry attractiveness and competitive position are determined by analyzing and weighing a number of different factors. Industry attractiveness will be impacted by such variables as sales growth, demand cyclicality, buyer power, supplier power, the threat of new entrants, the threat of substitutes and competitive intensity. Competitive position often reflects such factors as market share, technological know how, brand image, customer loyalty, cost structure and distinctive competences. Another difference between the two matrices is that in the BCG portfolio grid the bubbles represent the company's sales in a line of business, while in the GE business screen the bubbles reflect the total business size, with the pie slices indicate the firm's share of the business.

Deciding which portfolio of businesses to pursue, both in terms of corporate scope and corporate distribution, will depend on how the corporate strategist intends to create value – or as Porter (1987) puts it, how the corporate strategist wants to make "the corporate whole add up to more than the sum of its business unit parts." After all, there must be some benefit to having the various business activities together in one corporation, otherwise each business activity could just as easily (and with less overhead) be carried out by autonomous firms. This added value of having two or more business activities under one corporate umbrella is called *multi-business synergy* and it strongly determines the corporate composition the strategist will prefer. But before turning to the topic of synergy, the counterpart of corporate composition, namely corporate management, needs to be reviewed first.

7.2.2 Corporate Management

It has become a widespread policy to organize multi-business firms into *strategic business units* (SBUs). Each strategic business unit is given the responsibility to serve the particular demands of one business area. The business units are labeled 'strategic', because each is driven by its own business level strategy.

This dominant approach to structuring multi-business firms does present executives with the issue of how to bring together the separate parts into a cohesive corporate whole. The corporation can be divided into business units with the intent of focusing each on separate business areas, but this *differentiation* must be offset by a certain degree of *integration* to be able to address common issues and realize synergies (Lawrence and Lorsch, 1967). The challenge for executives is to find the most effective and efficient forms of integration between two or more separate business units. Three key *integration mechanisms* can be distinguished:

- *Centralization*. The most straightforward form of integration is to bring resources and activities physically together into one organizational unit. In other words, where the 'division of labor' between the business units has not been applied, resources and activities will be kept together in one department. Such a centralized department can be situated at the corporate center, but can also reside at one of the business units or at another location.
- *Coordination*. Even where resources, activities and product offerings have been split along business unit lines, integration can be achieved by ensuring that coordination is

carried out between business units. Such orchestration of work across business unit boundaries should result in the ability to operate as if the various parts were actually one unit.

- *Standardization*. Integration can also be realized by standardizing resources, activities and/or product offering characteristics across business unit boundaries. By having similar resources (e.g. technologies, people), standardized activities (e.g. R&D, human resource management) and common product features (e.g. operating system, high tech positioning) such advantages as economies of scale and rapid competence development can be achieved without the need to physically centralize or continuously coordinate.

These three integration mechanisms are the tools available to executives to achieve a certain level of harmonization between the various parts of the corporate whole. Yet it is often the question who should take the initiative to realize integration – where in the management system is the responsibility vested to ensure that centralization, coordination and standardization are considered and carried out? If all business unit executives are looking after their own backyard, who is taking care of the joint issues and cross-business synergies? Basically there are two organizational means available to secure the effective deployment of the integration mechanisms (see figure 7.3):

- *Control*. A straightforward way to manage activities that cross the boundaries of an individual business unit is to give someone the formal power to enforce centralization, coordination and standardization. Such a division-level or corporate-level executive can exert control in many ways. It can be by direct supervision (telling business units what to do), but often it is indirect, by giving business units objectives that must be met and discussing initiatives. The formal authority to secure integration does not always have to be given to an executive at the corporate center, but can be assigned to a executive within one of the business units as well. There are also various levels of authority that can be defined, ranging from full final decision-making power to 'coordinator' or 'liaison officer', who have only limited formal means at their disposal.
- *Cooperation*. Centralization, coordination and standardization between business units can also be achieved without the use of hierarchical authority. Business units might be willing to cooperate because it is in their interest to do so, or because they recognize the overall corporate interests. If business units believe in the importance of certain joint activities, this can be a powerful impetus to collaborate. Corporate strategists interested in such integration by mutual adjustment will focus on creating the organizational circumstances under which such self-organization can take place (see chapter 10 for a further discussion). For instance, they might strengthen formal and informal ties between the business units, to enhance mutual understanding and encourage the exchange of ideas and joint initiatives. They may also support cross-business career paths and try to instill a corporation-wide culture, to facilitate the communication between business units (Eisenhardt and Galunic, 2000).

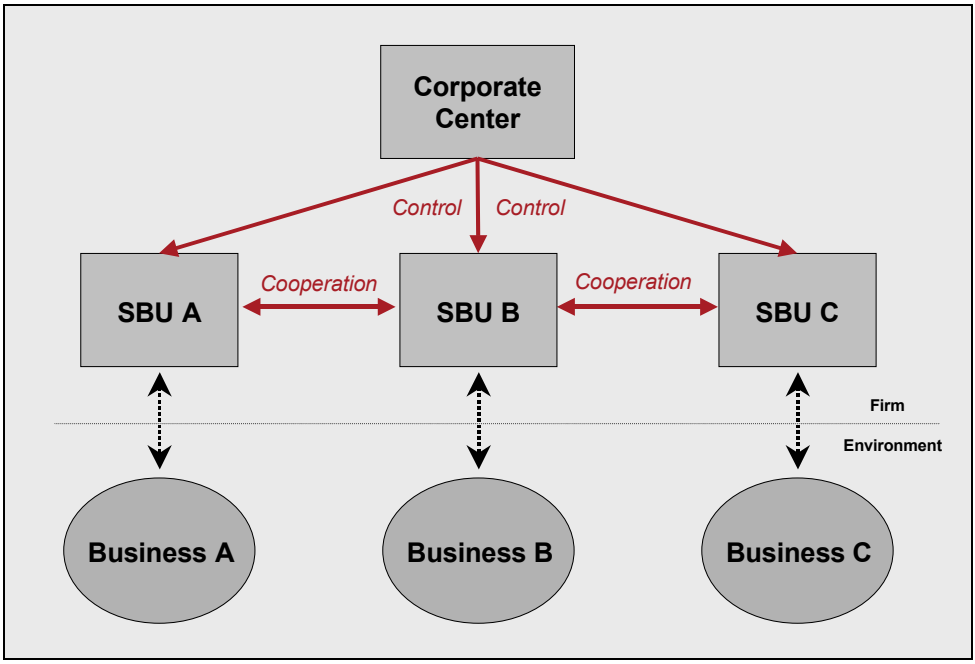
It is the task of the corporate level strategist to determine the mix of control and cooperation needed to manage the corporation. In their seminal research, Goold and Campbell (1987) distinguish three general corporate control styles, each emphasizing different levels of centralization, coordination and standardization:

- *Financial control style*. In the financial control style the strategic business units are highly autonomous from the corporate center. Few activities are centralized or standardized (except for the financial reporting system) and the corporate center does not explicitly

attempt to coordinate activities across business unit boundaries. Control is exerted by negotiating, setting and monitoring financial objectives.

- *Strategic control style*. In the strategic control style the strategic business units have a closer relationship with the corporate center. A number of central services exist, some systems and activities are standardized and the corporate center explicitly tries to coordinate activities that reach beyond the boundaries of only one business unit. Control is exerted by negotiating, setting and monitoring strategic objectives.
- *Strategic planning style*. In the strategic planning style the strategic business units have relatively little autonomy from the corporate center. Many key activities are centralized or standardized, and the corporate center is also heavily involved in securing cross-business coordination. Control is exerted by means of direct supervision.

FIGURE 7.3
Corporate integration through control and cooperation



Which corporate management style is adopted depends strongly on what the corporate strategist wishes to achieve. The preferred corporate management style will be determined by the type of multi-business synergies that the corporate strategist envisages, but also on the level of autonomy that the business units require. On the one hand, strategists will want to encourage integration to reap the benefits of having various business units together under one corporate roof and will therefore have a strong motivation to exert strong corporate center control and stimulate inter-business cooperation. On the other hand, strategists will be wary of heavy-handed head office intervention, blunt centralization, rigid standardization, paralyzing coordination meetings and excessive overhead. Recognizing that the business units need to be highly responsive to the specific demands of their own business area, corporate strategists will also be inclined to give business units the freedom to maneuver and

to emphasize their own entrepreneurship. Yet, these two demands on the corporate level strategy – *multi-business synergy* and *business responsiveness* – are to a certain extent at odds with one another. How corporate strategists deal with the tension created by these conflicting demands will be examined more closely in the following section.

7.3 THE TENSION BETWEEN RESPONSIVENESS AND SYNERGY

When Cor Boonstra took over as CEO of Philips Electronics in 1996, after a long career at the fast-moving consumer goods company Sara Lee, one of his first remarks to the business press was that Philips reminded him of "a plate of spaghetti" – the company's more than 60 business units were intertwined in many different ways, sharing technologies, facilities, sales forces and customers, leading to excessive complexity, abundant bureaucracy, turf wars and a lack of accountability. To Boonstra the pursuit of multi-business synergy had spiraled into an overkill of centralization, coordination and standardization, requiring direct rectification. Thus Boonstra set out to restructure Philips into, in his own words, "a plate of asparagus," with business units neatly lined up, one next to the other. Over a period of five years he disposed of numerous business units and made sure that the others were independent enough "to hold up their own pants." The result was a loss of some valuable synergies, but a significant increase in the business units' responsiveness to the demands in their own business. Then, in 2001, Boonstra handed over the reigns to a Philips insider, Gerard Kleisterlee, who during one of his first media encounters as new CEO stated that the business units within Philips had become too insular and narrowly focused, thereby missing opportunities to capture important synergies. Therefore, he indicated that it would be his priority to get Philips to work more like a team.

What this example of Philips illustrates is that corporate level strategists constantly struggle with the balance between realizing synergies and defending business unit responsiveness. To achieve synergies, a firm must to some extent integrate the activities carried out in its various business units. The autonomy of the business units must be partially limited, in the interest of concerted action. However, integration comes with a price tag. An extra level of management is often required, more meetings, extra complexity, potential conflicts of interest, additional bureaucracy – harmonization of operations cost money and diminishes a business unit's ability to precisely tailor its strategy to its specific business environment. Hence, for the corporate strategist the challenge is to realize more *value creation* through multi-business synergies than *value destruction* through the loss of business responsiveness (e.g. Campbell, Goold and Alexander, 1995; Prahalad and Doz, 1987).

This tension arising from the partially conflicting demands of business responsiveness and multi-business synergy is called the *tension between responsiveness and synergy*. In the following sections both sides of the tension will be examined in more detail.

7.3.1 The Demand for Multi-Business Synergy

Diversification into new business areas can only be economically justified if it leads to value creation. According to Porter (1987) entering into another business (by acquisition or internal growth) can only result in increased shareholder value if three essential tests are passed:

- *The attractiveness test*. The business "must be structurally attractive, or capable of being made attractive." In other words, firms should only enter businesses where there is a possibility to build up a profitable competitive position (see chapter 5). Each new

business area must be judged in terms of its competitive forces and the opportunities available to the firm to sustain a competitive business model.

- *The cost-of-entry test*. "The cost of entry must not capitalize all the future profits." In other words, firms should only enter new businesses if it is possible to recoup the investments made. This is important for internally generated new business ventures, but even more so for external acquisitions. Many researchers argue that, on average, firms significantly overpay for acquisitions, making it next to impossible to compensate for the value given away during the purchase (e.g. Sirower, 1997).
- *The better-off test*. "Either the new unit must gain competitive advantage from its link with the corporation or vice versa." In other words, firms should only enter new businesses if it is possible to create significant synergies. If not, then the new unit would be better off as an independent firm or with a different parent company, and should be cut loose from the corporation.

It is this last test that reveals one of the key demands of corporate level strategy. Multi-business level firms need to be more than the sum of their parts. They need to create more added value than the extra costs of managing a more complex organization. They need to identify opportunities for synergy between business areas and manage the organization in such a way that the synergies can be realized.

But what are the sources of synergy? For quite some time, strategists have known that potential for synergy has something to do with *relatedness* (Rumelt, 1974). Diversification moves that were *unrelated* (or *conglomerate*), for example a food company's entrance into the bicycle rental business, were deemed to be less profitable, in general, than moves that were *related* (or *concentric*), such as a car maker's diversification into the car rental business (e.g. Chatterjee, 1986; Rumelt, 1982). However, the problem has been to determine the nature of 'relatedness'. Superficial signs of relatedness do not indicate that there is potential for synergy. Drilling for oil and mining might seem highly related (both are 'extraction businesses'), but Shell found out the hard way that they were not related, selling the acquired mining company Billiton to Gencor after they were unable to create synergy (see the Shell case in Section VI). Chemicals and pharmaceuticals seem like similar businesses (especially if pharmaceuticals are labeled 'specialty chemicals'), but ICI decided to split itself in two (into ICI and Zeneca), because it couldn't achieve sufficient synergy between these two business areas.

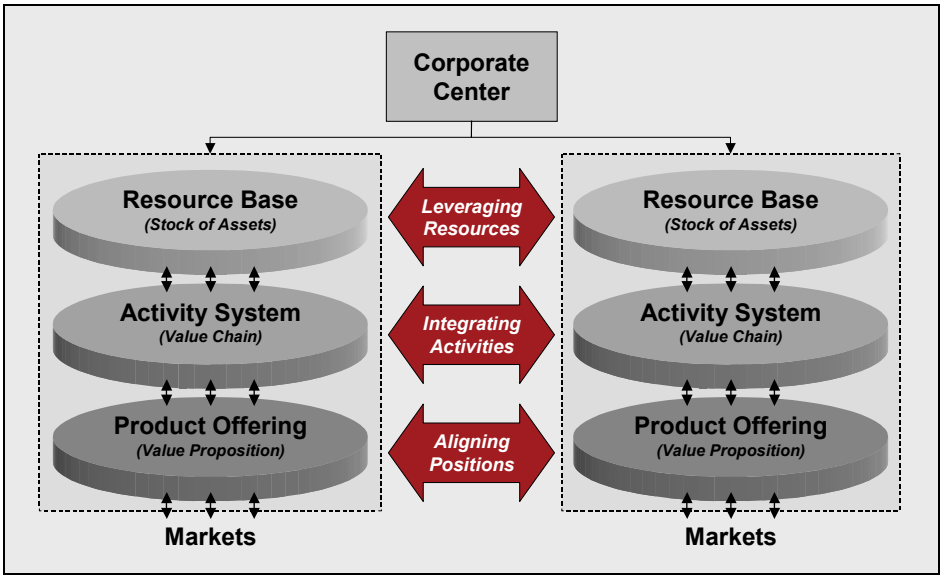
Strategy researchers have therefore attempted to pin down the exact nature of relatedness (e.g. Prahalad and Bettis, 1986; Ramanujam and Varadarajan, 1989). Following the business model framework outlined in chapter 6, the areas of relatedness that have the potential for creating synergy can be organized into three categories (see figure 7.4): resource relatedness, activity relatedness and product offering relatedness.

Synergy by Leveraging Resources

The first area of relatedness is at the level of the businesses' resource bases. Two or more businesses are related if their resources can be productively shared between them. In principle, all types of resources can be shared, both the tangible and the intangible, although in practice some resources are easier to share than others – for example, it is easier to transfer money than knowledge. Such *resource leveraging* (Hamel and Prahalad, 1993) can be achieved by physically reallocating resources from one business area to another, or by replicating them so they can be used in a variety of businesses simultaneously:

- *Achieving resource reallocation*. Instead of leaving firm resources in the business unit where they happen to be located, a corporation can create synergy by transferring resources to other business units, where better use can be made of them. For instance, money and personnel are often shifted between business units, depending on where they are needed and the potential return is highest.
- *Achieving resource replication*. While physical resources can only be used in one place at a time, intangible resources can often be copied from one business unit to the other, so that the same resource can be used many times over. This happens, for example, when knowledge and capabilities are copied and reused in other business units.

FIGURE 7.4
Forms of multi-business synergy



Synergy by Aligning Positions

A second area of relatedness is at the level of product offerings. Two or more businesses are related if they can help each other by aligning their positioning in the market. Such coordination between product-market combinations can both improve the businesses' bargaining position vis-à-vis buyers, as well as improve the businesses' competitive position vis-à-vis rival firms:

- *Improving bargaining position*. Business units can improve their bargaining power vis-à-vis buyers by offering a broad package of related products and/or services to specific customer groups. Especially when the products being offered are complementary, share a common brand and have a comparable reputation, will they support each other in the market.
- *Improving competitive position*. Coordination of product offerings within one firm can also prevent a number of business units from fighting fiercely amongst one another, which might have happened if all units were independent companies. Moreover, it is even

possible for multiple business units to support each other in attacking a third party, for example by setting a common standard or aggressively pricing selected products. Business units can team up to create barriers to entry into the industry/market as well.

Synergy by Integrating Activities

The third area of relatedness is at the level of activity systems. Two or more businesses are related if an integration of their value chains is more efficient and/or more effective than if they were totally separated. Such integration of value creation activities can focus on the sharing of similar activities or the linking up of sequential activities:

- *Sharing value-adding activities*. Business units often combine some of their value-adding activities, such as logistics, production or marketing, if this leads to significant scale advantages or quality improvements. It is also common to see that the corporate center organizes certain support activities centrally. These 'shared services' often include functions such as human resource management, procurement, quality control, legal affairs, research and development, finance, and corporate communication.
- *Linking value-adding activities*. Business units that are not horizontally but vertically related (see figure 7.1) can have an internal customer-supplier relationship. Such *vertical integration* of sequential value adding activities in one firm can be more efficient than operating independently where supplies need to be highly tailored to a specific type of customer demand.

Much attention in the literature has been paid to this issue of vertical integration of activities. It is also referred to as *internalization* because firms decide to perform activities inside the firm, instead of dealing with outside suppliers and buyers. In general, companies will strive to integrate upstream or downstream activities where one or more of the following conditions are deemed important (e.g. Harrigan 1985; Mahoney, 1992):

- *Operational coordination*. It can be necessary for various parts of the value system to be tightly coordinated or even physically integrated, to ensure that the right components, meeting the right specifications, are available in the right quantities, at the right moment, so that high quality, low cost and/or timely delivery can be achieved. To realize this level of coordination it can be necessary to gain control over a number of key activities in the value system, instead of trying to get suppliers and buyers to cooperate.
- *Avoidance of transaction costs*. Reaching a deal with a supplier or buyer and transferring the goods or services to the required location may be accompanied by significant direct costs. These *contracting costs* can include the expenses of negotiations, drawing up a contract, financial transfers, packaging, distribution and insurance. Add to these the *search costs*, required to locate and analyze potential new suppliers or buyers, as well as the *policing costs*, which are incurred to check whether the contract is being met according to expectations and to take actions against those parties not living up to their contractual responsibilities. If a firm vertically integrates, many of these costs can be avoided, leading to potential savings (Williamson, 1975).
- *Increased bargaining power*. If a firm is facing a supplier or buyer with a disproportionately high level of bargaining power (for instance, a monopolist), vertical integration can be used to weaken or neutralize such a party. By fully or partially performing the activities in-house, the firm can lessen its dependence on a strong buyer or supplier. The firm can also strive to acquire the other party, to avoid the bargaining situation altogether.

- *Learning curve advantages*. Where vertically linked business units work closely together, exchanging knowledge and personnel, they might also learn more quickly and more efficiently than if the business units were independent. Especially where they initiate joint R&D projects and collaborate on business process improvement efforts can significant learning curve advantages be realized.
- *Implementing system-wide changes*. Besides continual operational coordination and on-going learning, there may be a need to coordinate strategic changes throughout the value system. Switching over to new technologies, new production methods and new standards can sometimes only be implemented if there is commitment and a concerted effort in various parts of the value system. Sometimes even neighboring value systems need to be involved in the changes. Vertical integration and horizontal diversification can give a firm the formal control needed to push through such changes.

Corporate level strategy is about determining the corporate configuration that offers the best opportunities for synergy, and implementing a corporate management system capable of realizing the intended synergies. However, what types of synergies can realistically be achieved, without paying a heavier penalty in terms of integration costs? Recognizing the possible benefits of bringing together various businesses under one corporate umbrella is one thing, but developing a corporate management system that does not cost more than it yields is another. Therefore, corporate strategists need to carefully consider the potential downside of resource leveraging, activity integration and position alignment – the loss of business responsiveness.

7.3.2 The Demand for Business Responsiveness

Responsiveness is defined as the ability to respond to the competitive demands of a specific business area in a timely and adequate manner. A business unit is responsive if it has the capability to tightly match its strategic behavior to the competitive dynamics in its business. If a business unit does not focus its strategy on the conditions in its direct environment and does not organize its value adding activities and management systems to fit with the business characteristics, it will soon be at a competitive disadvantage compared to more responsive rivals. Business responsiveness is therefore a key demand for successful corporate level strategy.

Yet, in multi-business firms the responsiveness of the business units is constantly under pressure. Various *scope disadvantages* limit the ability of the corporation to ensure business responsiveness. The major problems encountered by multi-business firms are the following:

- *High governance costs*. Coordinating activities within a firm requires executives. Layers of management, and the bureaucratic processes that might entail, can lead to escalating costs.
- *Slower decision-making*. Business units must usually deal with more layers of management, more meetings for coordination purposes, more participants in meetings, more conflicts of interest and more political infighting. This not only increases governance costs, but also slows down decision-making and action.
- *Strategy incongruence.* The resource leveraging, activity integration and position alignment envisioned in the corporate strategy can be more suited to the conditions in some businesses than to others. Consequently, some business units might need to

compromise, adapting their business strategy to fit with the corporate strategy. However, such internal adaptation might lead to a misfit with the business demands.

- *Dysfunctional control*. The corporate center might not have the specific business know-how needed to judge business unit strategies, activities and results. However, the corporate center might feel the need to exert some control over business units, potentially steering them in an inappropriate direction.
- *Dulled incentives*. Limited autonomy combined with the aforementioned problems can have a significant negative impact on the motivation to perform optimally. This dulled incentive to be entrepreneurial and to excel can be compounded by poorly delineated responsibilities, a lack of clear accountability and the existence of 'captive' internal customers. Together these factors limit the business units' drive to be responsive.

These threats make clear that multi-business firms must determine their composition and management systems in a way that enables business units to be responsive. Yet, simultaneously, corporate strategists need to strive towards the identification and realization of synergies. The question is how these two conflicting demands can be reconciled – how can corporate level strategists deal with the tension between responsiveness and synergy?

7.4 PERSPECTIVES ON CORPORATE LEVEL STRATEGY

Corporations need to capture multi-business synergies and they need to ensure each business unit's responsiveness to its competitive environment. In other words, corporations need to be integrated and differentiated at the same time – emphasizing the *whole* and respecting the *part*. Striving towards synergy is a centripetal force, pulling the firm together into an integrated whole, while being responsive to business demands is a centrifugal force, pulling the firm apart into autonomous market-focused units (Ghoshal and Mintzberg, 1994). The main question dividing strategists is whether a corporation should primarily be a collection of parts or an integrated whole. Should corporations be loose federations of business units or tightly knit teams? Should corporations be business groups made up of distinctive parts, where only modest synergies can be realized and business units should be accorded a large measure of leeway to be responsive to their specific market conditions? Or should corporations actually be unitary organizations, with the parts serving the whole, allowing for significant synergies can be achieved, with the challenge of being responsive enough to varied business demands.

As before, the strategic management literature comes with strongly different views on how strategists should proceed. Here the two diametrically opposed positions will be identified and discussed. On the one side of the spectrum, there are those strategists who believe that multi-business firms should be viewed as portfolios of autonomous business units in which the corporation has a financial stake. They argue that business responsiveness is crucial and that only a limited set of financial synergies should be pursued. This point of view is referred to as the *portfolio organization perspective*. At the other end of the spectrum, there are strategists who believe that corporations should be tightly integrated, with a strong central core of shared resources, activities and/or product offerings keeping the firm together. They argue that corporations built up around these strong synergy opportunities can create significantly more value than lost through limitations to responsiveness. This point of view is referred to as the *integrated organization perspective*.

7.4.1 The Portfolio Organization Perspective

In the portfolio organization perspective, responsiveness is strongly emphasized over synergy. Executives taking this perspective usually argue that each business has its own unique characteristics and demands. Firms operating in different businesses must therefore develop a specific strategy for each business and assign the responsibility for each business strategy to a separate strategic business unit. In this manner, the (strategic) business units can be highly responsive to the competitive dynamics in the business, while being a clear unit of accountability towards the corporate center. High responsiveness, however, requires freedom from corporate center interference and freedom from cross-business coordination. Hence, a high level of business unit autonomy is required, with the corporate center's influence limited to arm's length financial control.

In the portfolio organization perspective, the main reason for a number of highly autonomous business units to be in one firm is to leverage financial resources. The only synergies emphasized are financial synergies (e.g. Lubatkin and Chatterjee, 1994; Trautwein, 1990). Actually, the term ‘portfolio’ entered the business vocabulary via the financial sector, where it refers to an investor's collection of shareholdings in different companies, purchased to spread investment risks. Transferred to corporate strategy, the portfolio organization perspective views the corporate center as an active investor with financial stakes in a number of stand-alone business units. The role of the center is one of selecting a promising portfolio of businesses, keeping tight financial control, and allocating available capital – redirecting flows of cash from business units where prospects are dim (‘cash cows’ or ‘dogs’), to other business units where higher returns can be expected (‘stars’ or ‘question marks’). The strategic objective of each business unit is, therefore, also financial in orientation – *grow*, *hold*, *milk* or *divest*, depending on the business unit's position on the portfolio grid (e.g. Henderson, 1979; Hedley, 1977). A good corporate strategy strives for a balanced portfolio of mature cash producers and high potential ROI cash users, at an acceptable level of overall risk.

The financial synergies can be gained in a number of different ways (e.g. Chatterjee, 1986; Weston, Chung and Hoag, 1990). Firstly, by having various businesses within one firm, the corporate center can economize on external financing. By internally shifting funds from one business unit to another the corporation can avoid the transaction costs and taxation associated with external capital markets. Secondly, the corporation can limit dependence on the whims of external capital providers, who might be less inclined to finance some ventures (e.g. new businesses or high risk turnarounds) at acceptable levels of capital cost. Thirdly, where the corporation does want to secure external financing, the firm’s larger size, debt capacity and creditworthiness can improve its bargaining position in the financial markets. Finally, by having revenue and earning streams from two or more different businesses, the corporation can reduce its exposure to the risk of a single business. This risk balancing, or *coinsurance*, effect is largest where the portfolio is made up of counter-cyclical businesses. In turn, the stability and predictability of revenue and earning flows enable the corporation to plan and function more effectively and efficiently (e.g. Amit and Livnat, 1988; Seth, 1990).

The business units do not necessarily need to be 'related' in any other way than financial. In practice, the business units can be related, that is, there can be resource leveraging, activity integration and position alignment opportunities that are seized. The portfolio organization perspective does not reject the pursuit of other forms of synergy, but neither does it accommodate such efforts (Haspeslagh, 1982). Responsiveness is not compromised to achieve these synergy opportunities.

New businesses can be entered by means of internal growth, but the portfolio approach to corporate strategy is particularly well suited to diversification through

acquisition. In a multi-business firm run on portfolio principles, acquired companies are simple to integrate into the corporation, because they can be largely left as stand alone units and only need to be linked to corporate financial reporting and control systems. Proponents of the portfolio organization perspective argue that such 'non-synergistic' acquisitions can be highly profitable (Kaplan, 1989; Long and Ravenscraft, 1993). Excess cash can be routed to more attractive investment opportunities than the corporation has internally. Moreover, the acquiring corporation can shake up the management of the acquired company and can function as a strategic sounding board for the new people. In this way, the acquirer can release the untapped value potential of under-performing stand-alone businesses (Anslinger and Copeland, 1996).

The portfolio organization perspective is particularly well known for the analytical techniques that have been developed to support it. As was mentioned before, a large number of portfolio grids are in widespread use as graphical tools for visualizing the corporate composition and for determining the position of each of the business units. These portfolio analysis tools have proven to be popular and much used (Goold and Lansdell, 1997), even among strategists who are not proponents of the portfolio organization perspective.

In conclusion, the basic assumption of the portfolio organization perspective is that business units must be responsible for their own competitive strategy. Business units are the main locus of strategic attention and the corporate center should understand their limited ability to get involved and stimulate synergy. Corporate centers should be modest in ambition and size, taking heed of the words of the famous 'business philosopher' Groucho Marx that "the most difficult thing about business is minding your own".

7.4.2 The Integrated Organization Perspective

The integrated organization perspective is fundamentally at odds with the portfolio organization perspective's minimalist interpretation of corporate level strategy. To proponents of the integrated organization perspective, a multi-business firm should be more than a loose federation of businesses held together by a common investor. Actually, a corporation should be quite the opposite – a tightly knit team of business units grouped around a common core. Having various businesses together in one corporation, it is argued, can only be justified if the corporate center has a clear conception of how strategically relevant multi-business synergies can be realized. It is not enough to capture a few operational synergies here and there – a compelling logic must lie at the heart of the corporation, creating a significant competitive advantage over rivals who operate on a business-by-business basis. The multi-business synergies generated at the core of the organization should enable the corporation to beat its competitors in a variety of business areas.

As corporate level strategists 'lead from the center' (Raynor and Bower, 2001) and develop a joint competitive strategy together with business level strategists, they must make very clear which multi-business synergies they intend to foster as the nucleus of the corporation. It is their task to determine what the core of the organization should be and to take the lead in building it. To be successful, it is necessary for them to work closely together with business level executives, whose main task it is to apply the core strengths of the corporation to their specific business area. The consequence of this tightly joint strategy development and synergy realization is that all business units are highly interdependent, requiring continual coordination.

Many different multi-business synergies can form the core of the corporation. In the strategic management literature one specific form has received a large amount of attention – the *core competence* centered corporation (Prahalad and Hamel, 1990). In such an

organization a few competences are at the heart of the corporation and are leveraged across various business units. Prahalad and Hamel's metaphor for the corporation is not an investor's portfolio, but a large tree, "the trunk and major limbs are core products, the smaller branches are business units, the leaves, flowers and fruit are end products; the root system that provides nourishment, sustenance and stability is the core competence". Business unit branches can be cut off and new ones can grow on, but all spring from the same tree. It is the corporate center's role to nurture this tree, building up the core competences and ensuring that the firm's competence carriers can easily be redeployed across business unit boundaries. The strategic logic behind leveraging these intangible resources is that high investments in competence development can then be spread over a number of different businesses. Moreover, by using these competences in different business settings they can be further refined, leading to a virtuous circle of rapid learning, profiting the entire corporation. In line with the arguments of the inside-out perspective (see chapter 6), it is pointed out that in the long run inter-firm rivalries are often won by the corporation who has been able to upgrade its competences fastest – skirmishes in particular markets are only battles in this broader war. From this angle, building the corporation's core competences is strategic, while engaging other corporations in specific business areas is tactical. The corporate center is therefore at the forefront of competitive strategy, instead of the business units, that are literally divisions in the overall campaign (e.g. Kono, 1999; Stalk, Evans and Shulman, 1992).

As all business units should both tap into, and contribute to, the corporation's core competences, the business units' autonomy is necessarily limited. Unavoidably, the responsiveness to the specific characteristics of each business does suffer from this emphasis on coordination. Yet, to advocates of the core competence model, the loss of business responsiveness is more than compensated by the strategic benefits gained.

Besides competences as the core of the corporation, other synergies can also be at the heart of a multi-business firm. For instance, corporations can focus on aligning a variety of product offerings for a group of '*core customers'*. Many professional service firms, such as Pricewaterhouse Coopers and Cap Gemini Ernst & Young, are involved in a broad range of businesses, with the intention of offering an integrated package of services to their selected market segments. Another type of core is where a multi-business firm is built around shared activities. Many of the large airlines, for example, have one '*core process'* flying planes, but operate in the very different businesses of passenger travel and cargo transport. Yet another central synergy can be the leveraging of the firm's 'software'. For instance, Disney is such a 'core content' corporation, letting Cinderella work hard selling Disney videos, luring families to Disney theme parks, getting kids to buy Disney merchandise and enticing people to watch the Disney channel. Whichever synergy is placed center stage, to the proponents of the integrated organization perspective it should not be trivial, as such minor value creation efforts do not provide the driving motivation to keep a corporation together. The 'glue' of the corporation must be strong enough to convince all involved that they are much better off as part of the whole than on their own.

The flip side of having a tightly knit group of businesses arranged around a common core is that growth through acquisition is generally much more difficult than in the 'plug and play' set-up of a portfolio organization. To make an acquisition fit into the corporate family and to establish all of the necessary links to let the new recruits profit from, and contribute to, the core synergies, can be very challenging. Taking the previous metaphor a step further, the corporate center will find it quite difficult to graft oak roots and elm branches on to an existing olive tree. Consequently, acquisitions will be infrequent, as the firm will prefer internal growth.

7.5 CONCLUSION

So, how do executives believe that the corporate configuration should be determined? Do they suppose that corporate strategists should limit themselves to achieving financial synergies, leaving SBU executives to 'mind their own business'? Or do they think that corporate strategists should strive to build a multi-business firm around a common core, intricately weaving all business units into a highly integrated whole? In table 7.1 the main differences between the portfolio organization perspective and the integrated organization perspective have been summarized.

To be able to measure whether executives have a predisposition towards one or the other view, these two perspectives have been used to generate a set of 24 statements on the best approach to corporate level strategy. These opposing policy statements are summarized in table 7.2. They will be used again in chapter 14, when putting together the 'strategy profiler' measurement instrument.

TABLE 7.1
Portfolio organization versus integrated organization perspective

	Portfolio Organization Perspective	**Integrated Organization Perspective**
Emphasis on	Responsiveness over synergy	Synergy over responsiveness
Conception of corporation	Collection of business shareholdings	Core with business applications
Corporate composition	Potentially unrelated (diverse)	Tightly related (focused)
Key success factor	Business unit responsiveness	Multi-business synergy
Focal type of synergy	Cash flow optimization & risk balance	Resources, activities & positions
Corporate style	Exerting financial control	Joint strategy development
Focus corporate center	Capital allocation & performance	Setting direction & managing synergy
Position of business units	Highly autonomous (independent)	Highly integrated (interdependent)
Coordination of BUs	Low, incidental	High, structural
Growth thru acquisitions	Simple to accommodate	Difficult to integrate

TABLE 7.2
Statements representing the opposite perspectives

Portfolio Organization Perspective		**Integrated Organization Perspective**	
9.1	In a corporation, each business unit should have its own resources and facilities.	10.1	In a corporation, the sharing of resources and facilities between business units should be encouraged.
9.2	Each business unit within a corporation should have considerable freedom to determine its own strategic direction.	10.2	Business unit strategies should be tightly integrated into the overall corporate strategy.
9.3	Each business unit in a corporation should only be responsible for its own financial performance.	10.3	Each business unit in a corporation should be responsible for the financial performance of the entire corporation.

9.4	Business unit managers should only be given bonuses based on the performance of their own unit.	10.4	Business unit managers should be given bonuses based on the performance of the entire corporation.
9.5	The role of corporate headquarters should be focused on financial control of its business units.	10.5	The role of corporate headquarters should be to determine the strategic direction of its business units.
9.6	The success of a corporation depends on the ability of each business unit to operate almost independently.	10.6	The success of a corporation depends on the ability of the business units to work together to create synergies.
9.7	Business units in a corporation should be given as much autonomy as possible.	10.7	Managers should strive to create as much synergy between business units as possible.
9.8	In a large corporation, business units should never be forced to work together.	10.8	In successful corporations, business units work together very closely.
9.9	Coordination between business units usually leads to inefficient bureaucracy.	10.9	Coordination between business units can lead to crucial economies of scale.
9.10	In corporations you should decentralize everything, unless the situation forces you to centralize.	10.10	Business units that don't create a high level of synergy with the rest of the corporation should be sold.
9.11	The corporate head office's role should be kept to a bare minimum.	10.11	The corporate head office should set the general strategic direction for each business unit to follow.
9.12	The identity of individual business units should be given more emphasis than the overall corporate identity.	10.12	The overall corporate identity should be given more emphasis than the identity of individual business units.

Chapter 8

NETWORK LEVEL STRATEGY

8.1 INTRODUCTION

A *business unit* can have a strategy, while a *group of business units* can also have a strategy together – this joint course of action at the divisional or corporate level was discussed in the previous chapter. What has not been examined yet is whether a *group of companies* can also have a strategy together. Is it possible that companies do not develop their strategies in 'splendid isolation', but rather coordinate their strategies to operate as a team? And is it a good idea for firms to link up with others for a prolonged period of time to try to achieve shared objectives together?

Where two or more firms move beyond a mere transactional relationship and work jointly towards a common goal, they form an *alliance, partnership* or *network*. Their shared strategy is referred to as a *network level strategy*. In such a case, strategy is not only "concerned with relating a firm to its environment", as was stated in chapter 6, but also with relating a network to its broader environment.

The existence of networks does raise a range of questions, not the least of which is whether they make strategic sense or not. Is it beneficial to engage in long-term collaborative relationships with other firms or is it more advantageous for firms to 'keep their distance' and to interact with one another in a more market-like, transactional way? Is it viable to manage a web of partnership relations or is it preferable to keep it simple, by having the firm operate more or less independently? To address these questions is to raise the *issue of inter-organizational relationships* – what should be the nature of the relationship between a firm and other organizations in its surroundings? This issue will be the focus of the further discussion in this chapter, leading up to a review of the differing perspectives on this topic.

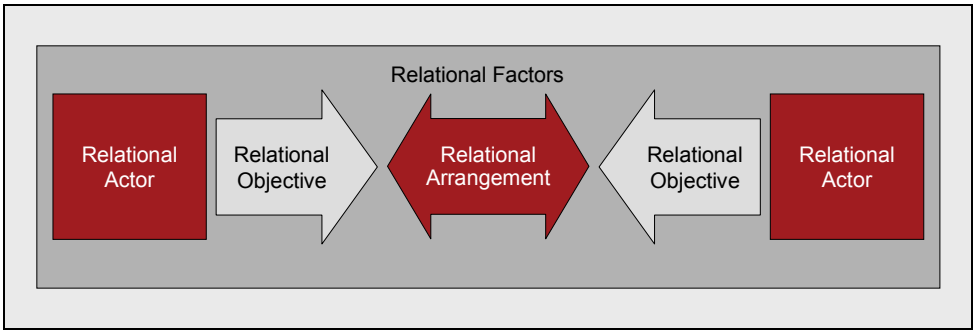
8.2 THE ISSUE OF INTER-ORGANIZATIONAL RELATIONSHIPS

No firm exists that is autarchic. All firms must necessarily interact with other organizations (and individuals) in their environment and therefore they have inter-organizational (or inter-firm) relationships. These relationships can evolve without any clear strategic intent or tactical calculation, but most executives agree that actively determining the nature of their external relations is a significant part of what strategizing is about. Even avoiding relations with some external parties can be an important strategic choice.

To gain a better understanding of the interaction between firms, four aspects are of particular importance and will be reviewed here – the *who*, *why*, *what* and *how* of inter-organizational relationships (see figure 8.1). The first aspect is the question of *who* – who are

the potential counterparts with whom a firm can actually have a relationship? This is referred to as the topic of *relational actors*. The second aspect is the question of *why* – why do the parties want to enter into a relationship with one another? This is referred to as the topic of *relational objectives*. The third aspect is the question of *what* – what type of influences determine the nature of the relationship? This is referred to as the topic of *relational factors*. The fourth aspect is the question of *how* – how can relationships be structured into a particular organizational form to let them function in the manner intended? This is referred to as the topic of *relational arrangements*.

FIGURE 8.1
Aspects of inter-organizational relations



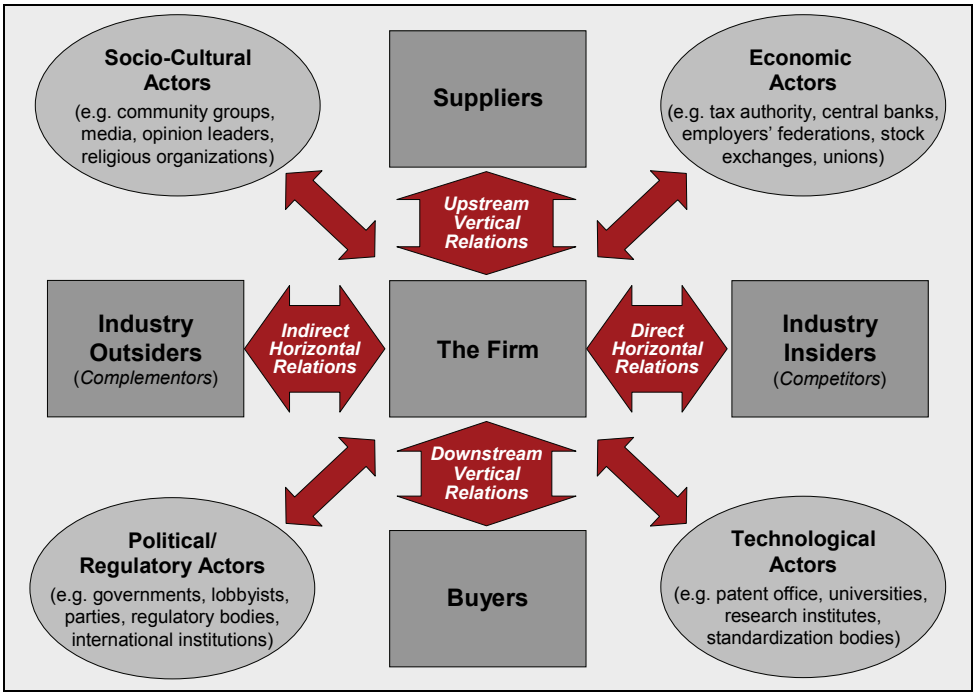
8.2.1 Relational Actors

In figure 8.2 an overview is given of the eight major groups of external parties with whom the firm can, or must, interact. A distinction has been made between industry and contextual actors. The industry actors are those individuals and organizations that perform value-adding activities and/or consume the outputs of these activities. The contextual actors are those parties whose behavior, intentionally or unintentionally, sets the conditions under which the industry actors must operate. The four main categories of relationships between the firm and other industry parties are the following (e.g. Porter, 1980; Reve, 1990):

- *Upstream vertical (supplier) relations*. Every company has suppliers of some sort. In a narrow definition these include the providers of raw materials, parts, machinery, and business services. In a broader definition the providers of all production factors (land, capital, labor, technology, information and entrepreneurship) can be seen as suppliers, if they are not part of the firm itself. All these suppliers can either be the actual producers of the input, or an intermediary (distributor or agent) trading in the product or service. Beside the suppliers with which the firm transacts directly (first-tier suppliers), the firm may also have relationships with suppliers further upstream in the industry. All these relationships are traditionally referred to as upstream vertical relations, because economists commonly draw the industry system as a column.
- *Downstream vertical (buyer) relations*. On the output side, the firm has relationships with its customers. These clients can either be the actual users of the product or service, or intermediaries trading the output. Besides the buyers with which the firm transacts directly, it may also have relationships with parties further downstream in the industry column.

- *Direct horizontal (industry insider) relations*. This category includes the relations between the firm and other industry incumbents. Because these competitors produce similar goods or services, they are said to be at the same horizontal level in the industry column.
- *Indirect horizontal (industry outsider) relations*. Where a firm has a relationship with a company outside its industry, this is referred to as an indirect horizontal relation. Commonly, companies will have relationships with the producers of complementary goods and services (e.g. hardware manufacturers with software developers). Such a relationship can develop with the producer of a substitute good or service, either as an adversary or an ally as well. A relation can also exist between a firm and a potential industry entrant, whereby the incumbent firm can assist or attempt to block the entry of the industry outsider. Furthermore, a firm can establish a relationship with a firm in another industry, with the intention of diversifying into that, or a third, industry. In reality, where industry boundaries are not clear, the distinction between direct and indirect horizontal relations is equally blurry.

FIGURE 8.2
The firm and its web of relational actors



Besides relationships with these industry actors, there can be many contacts with condition-setting parties in the broader environment. Employing the classic SEPTember distinction, the following rough categories of contextual actors can be identified:

- *Socio-cultural actors*. Individuals or organizations that have a significant impact on societal values, norms, beliefs and behaviors may interact with the firm. These could

include the media, community groups, charities, religious organizations, and opinion leaders.

- *Economic actors*. There can also be organizations influencing the general economic state of affairs, with which the firm interacts. Among others tax authorities; central banks, employers' federations, stock exchanges and unions may be of importance.
- *Political/legal actors*. The firm may also interact with organizations setting or influencing the regulations under which companies must operate. These could include governments, political parties, special interest groups, regulatory bodies and international institutions.
- *Technological actors*. There are also many organizations that influence the pace and direction of technological development and the creation of new knowledge. Among others, universities, research institutes, patent offices, government agencies and standardization bodies may be important to deal with.

As figure 8.2 visualizes, companies can choose, but are often also forced, to interact with a large number of organizations and individuals in the environment. This configuration of external actors with which the organization interacts is referred to as the company's group of *external stakeholders*.

8.2.2 Relational Objectives

How organizations deal with one another is strongly influenced by what they hope to achieve (e.g. Dyer and Singh, 1998; Preece, 1995). Both parties may have clear, open and mutually beneficial objectives, but it is also possible that one or both actors have poorly defined intentions, hidden agendas and/or mutually exclusive goals. Moreover, it is not uncommon that various people within an organization have different, even conflicting, objectives and expectations with regard to an external relationship (e.g. Allison, 1969; Doz and Hamel, 1998).

Where two or more firms seek to work together with one another, they generally do so because they expect some value added – they assume more benefit from the interaction than if they had proceeded on their own. This expectation of value creation as a driver for cooperation was also discussed in chapter 6, where two or more business units worked together to reap synergies. In fact, the same logic is at play between business units and between companies. In both cases, executives are oriented towards finding sources of added value in a potential relationship with another – either across business unit boundaries or across company boundaries. Hence, the same sources of synergy identified in the discussion on corporate level strategy are just as relevant when examining the objectives for inter-organizational cooperation (see figure 8.3).

Relations Oriented Towards Leveraging Resources

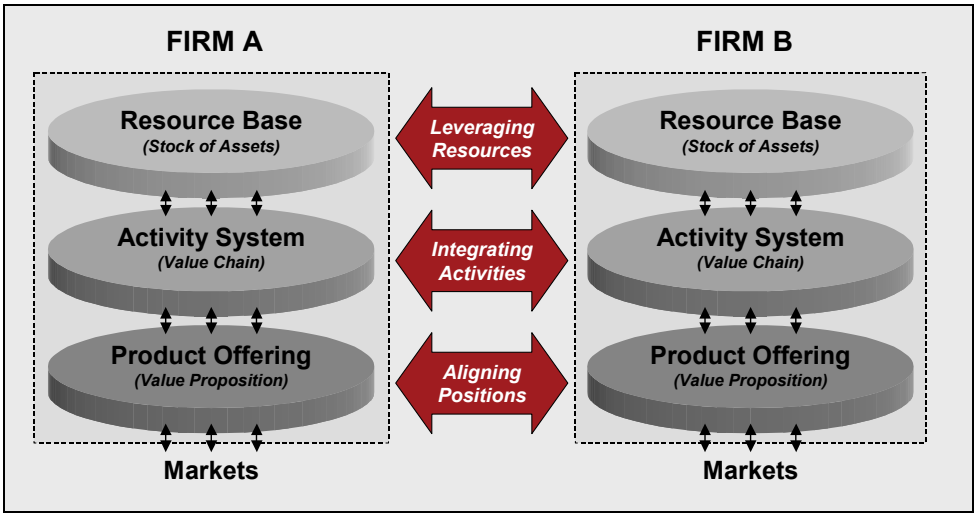
The first area where companies can cooperate is at the level of their resource bases. By sharing resources with one another, companies can either improve the quantity or quality of the resources they have at their disposal. There are two general ways for firms to leverage resources to reap mutual benefit:

- *Learning*. When the objective is to exchange knowledge and skills, or to engage in the joint pursuit of new know how, the relationship is said to be learning-oriented. Firms can enter into new learning relationships with industry outsiders, but can also team up with industry incumbents, for instance to develop new technologies or standards (e.g. Hamel,

Doz and Prahalad, 1989; Shapiro and Varian, 1998). However, firms can add a learning objective to an already existing relationship with a buyer or supplier as well.

- *Lending*. Where one firm owns specific resources that it cannot make full use of, or another firm can make better use of, it can be attractive for both to lend the resource to the other. Lending relationships happen frequently in the areas of technology, copyrights and trademarks, where licensing is commonplace. But physical resources can also be lent, usually in the form of lease contracts. In all cases the benefit to lenders can be financial or they receive other resources in return.

FIGURE 8.3
Inter-organizational cooperation objectives



Relations Oriented Towards Integrating Activities

The second area where companies can cooperate is at the level of their activity systems. Few companies can span an entire industry column from top to bottom and excel at every type of activity. Usually, by integrating their value chains with other organizations, firms can be much more efficient and effective than if they were totally separated. There are two general ways for firms to integrate their activities with others:

- *Linking*. The most common type of relationship in business is the vertical link between a buyer and a seller. All relationships in which products or services are exchanged fall into this category. Most firms have many linking relationships, both upstream and downstream, because they want to focus on only a limited number of value-adding activities, but need a variety of inputs, as well as clients to purchase their finished goods.
- *Lumping*. Where firms bring together their similar activities to gain economies of scale, the relationship is said to be oriented towards lumping. Sharing operations (e.g. airline alliances), sales infrastructure (e.g. software cross-selling deals), logistics systems (e.g. postal partnerships) or payment facilities (e.g. inter-bank settlement agreements) are examples of where firms can lump their activities together. Because the activities need to

be more or less the same to be able to reap scale economies, lumping relationships are usually found between two or more industry insiders.

Relations Oriented Towards Aligning Positions

The third area where companies can cooperate is at the level of their market positions. Even where companies want to keep their value adding activities separate, they can coordinate their moves in the environment with the intention of strengthening each other's position. Usually, this type of coalition building is directed at improving the joint bargaining power of the cooperating parties. These position-enhancing relationships can be further subdivided into two categories:

- *Leaning*. Where two or more firms get together to improve their bargaining position vis-à-vis other industry actors, it is said that they lean on each other to stand stronger. Leaning can be directed at building up a more powerful negotiation position towards suppliers, or to offer a more attractive package of products and services towards buyers. Getting together with other companies to form a consortium to launch a new industry standard can also bolster the position of all companies involved. At the same time, the cooperation can be directed at weakening the position of an alternative group of companies or even heightening the entry barriers for interested industry outsiders.
- *Lobbying*. Firms can also cooperate with one another with the objective of gaining a stronger position vis-à-vis contextual actors. Such lobbying relationships are often directed at strengthening the firms' voice towards political and regulatory actors, such as governments and regulatory agencies. However, firms can get together to put pressure on various other contextual actors, such as standard setting bodies, universities, tax authorities and stock exchanges as well.

In practice, cooperative relationships between organizations can involve a number of these objectives simultaneously. Moreover, it is not uncommon for objectives to shift over time and for various participants in the relationship to have different objectives.

8.2.3 Relational Factors

How inter-organizational relationships develop is strongly influenced by the objectives pursued by the parties involved. However, a number of other factors also have an impact on how relationships unfold. These relational factors can be grouped into four general categories (e.g. Mitchell, Agle and Wood, 1997; Gulati, 1998):

- *Legitimacy*. Relationships are highly impacted by what is deemed to be legitimate. Written and unwritten codes of conduct give direction to what is viewed as acceptable behavior. Which topics are allowed on the agenda, who has a valid claim, how interaction should take place and how conflicts should be resolved, are often decided by what both parties accept as 'the rules of engagement'. There is said to be *trust*, where it is expected that the other organization or individual will adhere to these rules. However, organizations do not always agree on 'appropriate behavior', while what is viewed as legitimate can shift over time as well. It can also be (seen as) advantageous to act opportunistically by not behaving according to the unwritten rules (e.g. Gambetta, 1988; Williamson, 1991).

- *Urgency*. Inter-organizational relations are also shaped by the factor 'timing'. Relationships develop differently when one or both parties are under time pressure to achieve results, as opposed to a situation where both organizations can interact without experiencing a sense of urgency (e.g. Pfeffer & Salancik, 1978; James, 1985).
- *Frequency*. Inter-organizational relations also depend on the frequency of interaction and the expectation of future interactions. Where parties expect to engage in a one-off transaction they usually behave differently than when they anticipate a more structural relationship, extending over multiple interactions. Moreover, a relationship with a low rate of interaction tends to develop differently that one with a high regularity of interaction (e.g. Axelrod, 1984; Dixit & Nalebuff, 1991).
- *Power*. Last but not least, relations between organizations are strongly shaped by the power held by both parties. Power is the ability to influence others' behavior and organizations can have many sources of power. Most importantly for inter-organizational relationships, a firm can derive power from having resources that the other organization requires. In relationships with a very high level of *resource dependence* firms tend to behave differently towards each other than when they are interdependent or relatively independent of one another (e.g. Pfeffer and Salancik, 1978; Porter, 1980).

Especially the impact of power differences on inter-organizational relationships is given extensive attention in the strategic management literature. Many authors (e.g. Chandler, 1990; Kay, 1993; Pfeffer and Salancik, 1978; Porter, 1980; Schelling, 1960) stress that for understanding the interaction between firms it is of the utmost importance to gain insight into their relative power positions. One way of measuring relative power in a relationship is portrayed in figure 8.4, where a distinction is made between the closeness of the relationship (loose vs. tight) and the distribution of power between the two parties involved (balanced vs. unbalanced). This leads to a categorization of four specific types of inter-firm relationships from the perspective of relative power position. These four categories (adapted from Ruigrok and Van Tulder, 1995) are:

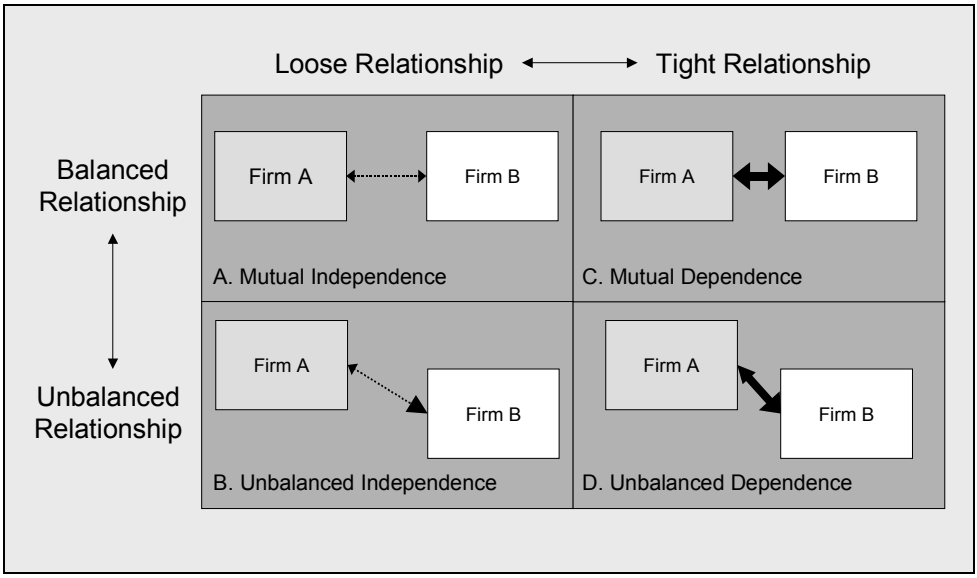
A. *Mutual independence*. Organizations are independent in a relationship if they have full freedom to act according to their own objectives. Independence in an inter-organizational relationship means that organizations will only interact on their own terms and that they have the ability to break off the relationship without any penalty. In a situation of mutual independence, neither organization has significant influence over the other.

B. *Unbalanced independence*. When two organizations work together in a loose relationship, one side (firm A) can have more power than the other (firm B). In such a case, it is said that firm A is more independent than firm B – firm A's power gives it more freedom to act, while firm B can be influenced by the powerful firm A. This situation is called unbalanced independence, as both sides are independent, but one more so than the other.

C. *Mutual dependence*. Two organizations can have a tight relationship, in which they are mutually dependent, while having an equal amount of sway over their counterpart. This type of situation, where there is a substantial, yet balanced, relationship between two or more parties, is also called interdependence.

D. *Unbalanced dependence*. Where a tight relationship is characterized by asymmetrical dependence, one party will be able to dominate the other. In this situation of unbalanced dependence, the organization with the lower level of dependence will have more freedom to maneuver and impose its conditions than its counterpart.

FIGURE 8.4
Relative power positions in inter-organizational relationships



The first category, mutual independence, is what is typically expected of a normal *market* relationship, although it is not strange to also witness market relationships that fit more in the second category, unbalanced independence. At the other extreme, unbalanced dependence is very close to the situation that would occur if the dominant firm acquired its counterpart. Whether acquired or fully dependent, the dominant firm controls its behavior. For this reason it is said that in cases of unbalanced dependence the inter-organizational relationship comes close to resembling the *hierarchy*-type relationship found within a firm. Interdependence seems to be somewhere between market and hierarchy type relationships. What this means for the structuring of these relationships will be examined below.

8.2.4 Relational Arrangements

In the classic dichotomy, the firm and its environment are presented as rather distinct entities. Within a firm coordination is achieved by means of direct control, leading transaction cost economists to refer to this organizational form as a *hierarchy* (Williamson, 1975, 1985). In a hierarchy a central authority governs internal relationships and has the formal power to coordinate strategy and solve interdepartmental disputes. In the environment, relationships between firms are non-hierarchical, as they interact with one another without any explicit coordination or dispute settlement mechanism. This organizational form is referred to as a *market*.

In chapter 6 it was argued that there are all types of activities that companies should not want to *internalize* and run themselves, but should leave up to the marketplace. In many situations, it is such more efficient to buys inputs in the market than to make them yourself – where activities are performed by autonomous parties and outputs are sold in the market place, costs will often be lowest. As summarized by Ouchi (1980, p. 130), "in a market relationship, the transaction takes place between the two parties and is mediated by a price

mechanism in which the existence of a competitive market reassures both parties that the terms of exchange are equitable."

Integration of activities into the firm is only necessary where "markets do not function properly" – where doing it yourself is cheaper or better. The firm must internalize activities, despite the disadvantages of hierarchy, where the *invisible hand* of the market cannot be trusted to be equitable and effective. Control over activities by means of formal authority – the *visible hand* – is needed under these conditions. This is particularly true of all of the synergy advantages mentioned in chapter 6, that the corporation would not be able to reap if the various business activities were not brought together under one 'corporate roof'.

In reality, however, there are many organizational forms between markets and hierarchies (e.g. Håkansson & Johanson, 1993; Powell, 1990; Thorelli, 1986). These are the *networks*, *partnerships*, or *alliances* introduced at the start of this chapter. In networks, strategies are coordinated and disputes resolved, not through formal top-down power, but by mutual adaptation. To extend the above metaphor, networks rely neither on the visible nor invisible hand to guide relationships, but rather employ the *continuous handshake* (Gerlach, 1992).

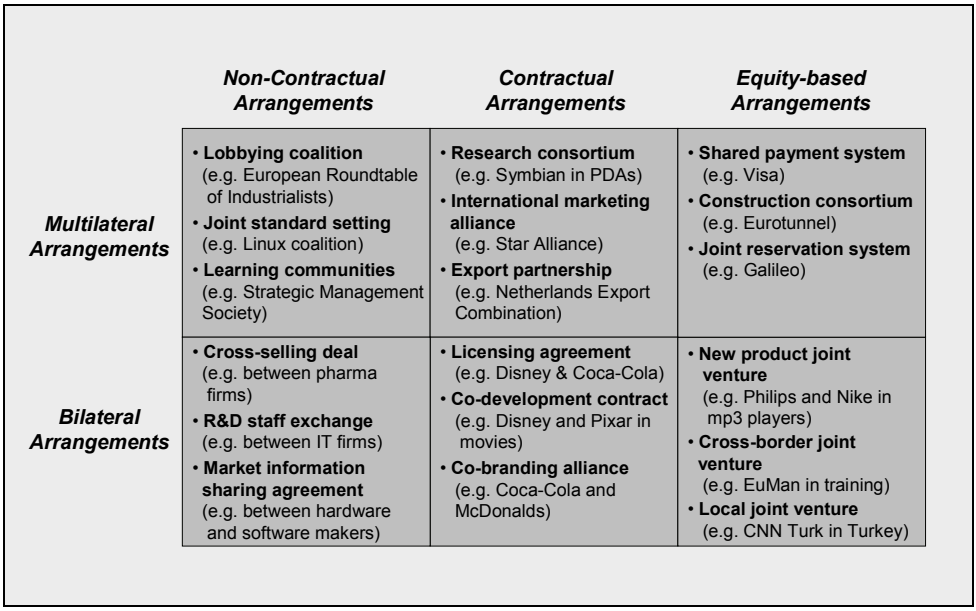
The organizations involved in networks can employ different sorts of *collaborative arrangements* to structure their ties with one another. In figure 8.5, an overview of a number of common types of collaborative arrangements is presented. Two major distinctions are made in this overview. First, between bilateral arrangements, which only involve two parties, and multilateral arrangements, which involve three or more. Commonly, only the multilateral arrangements are referred to as networks, although here the term is employed to cover all groupings of two or more cooperating firms. The second distinction is between non-contractual, contractual and equity-based arrangements. Non-contractual arrangements are cooperative agreements that are not binding by law, while contractual arrangements do have a clear legal enforceability. Both, however, do not involve taking a financial stake in each other or in a new joint venture, while the equity-based arrangements do.

The intent of these collaborative arrangements is to profit from some of the advantages of vertical and horizontal integration, without incurring their costs. Networks are actually hybrid organizational forms that attempt to combine the benefits of hierarchy with the benefits of the market. The main benefits of hierarchy are those associated with the structural coordination of activities. In non-market relational arrangements, all parties collaborate on a more long-term basis with the intent of realizing a common goal. They will organize procedures, routines and control systems to ensure effective and efficient functioning of their joint activities and a smooth transition at their organizational interfaces. The benefits of the market that these collaborative arrangements retain are flexibility and motivation. By not being entirely locked into a fixed hierarchy, individual firms can flexibly have multiple relationships, of varying length and intensity, and can change these relationships more easily where circumstances require adaptation. The market also provides the motivation to be efficient and to optimize the pursuit of the organization's self-interest. This entrepreneurial incentive can be a strong spur for risk-taking, innovation and change.

A significant advantage of collaborative arrangements is that such relationships facilitate the process of *co-specialization*. Much of humanity's economic progress is based on the principle of specialization by means of a division of labor. As people and firms focus more closely on performing a limited set of value-adding activities, they become more effective and efficient in their work. This division of labor assumes, however, that the value-adding activities that are *outsourced* by one become the specialization of another, hence co-specialization. Yet, many activities cannot be outsourced to outsiders on the basis of normal market relations, either due to the risk of dependence or because of the need for the structural coordination of activities. Under these conditions, collaborative arrangements can act as a

synthesis of hierarchy and market relations, thus catalyzing the process of specialization (e.g. Best, 1990; Axelsson & Easton, 1992).

FIGURE 8.5
Examples of collaborative arrangements



Such co-specialization can progress to such an extent that clusters of firms work together in more of less permanent networks. Such symbiotic groups of collaborating firms can actually function as *virtual corporations* (e.g. Chesbrough and Teece, 1996; Quinn, 1992). In such networks, the relationships between the participating firms are often very tight and durable, based on a high level of trust and perceived mutual interest. While each organization retains its individual identity, the boundaries between them become fuzzy, blurring the clear distinction between 'the organization' and 'its environment'. When a high level of trust and reciprocity has been achieved, relations can move far beyond simple contractual obligations. The collaborative relations can become more open-ended, with objectives, responsibilities, authority and results not fully determined in advance in a written contract, but evolving over time, given all parties' sincere willingness to "work on their relationship" (e.g. Jarillo, 1988; Kanter, 1994).

While the intention of collaborative arrangements may be to blend the advantages of hierarchy with the qualities of the market, it is also possible that the weaknesses of both are actually combined. The main weakness of hierarchy is *bureaucracy* – creating red tape, unnecessary coordination activities and dulling the incentive to perform. In reality, collaborative arrangements might be mechanisms for structuring static relationships and dampening entrepreneurial behavior. A further danger is that the mutual dependence might become skewed, shifting the balance of power to one of the partners. Under such conditions, one or more organizations can become dependent on a dominant party, without much influence (*voice*) or the possibility to break off the relationship (*exit*). Such unbalanced dependency relationships (type D and E in figure 8.4) might be a great benefit for the

stronger party, but can easily lead to the predominance of its interests over the interests of the weaker partners (e.g. Oliver & Wilkinson, 1988; Ruigrok & Van Tulder, 1995).

Simultaneously such partnerships are vulnerable to the main disadvantage of the market, namely *opportunism*. Companies run the risk of opportunism, that is, "self-interest seeking with guile. This includes but is scarcely limited to more blatant forms, such as lying, stealing and cheating...More generally, opportunism refers to the incomplete or distorted disclosure of information, especially to calculated efforts to mislead, distort, disguise, obfuscate, or otherwise confuse" (Williamson, 1985: 47). Such behavior can be limited by clearly defining objectives, responsibilities, authority and expected results ahead of time, preferably in an explicit contract. Even then collaborative arrangements expose companies to the risk of deception, the abuse of trust and the exploitation of dependence, making their use by no means undisputed.

8.3 THE TENSION BETWEEN COMPETITION AND COOPERATION

When former CEO of KLM Royal Dutch Airlines, Pieter Bouw, teamed up with Northwest Airlines in 1989, he was thrilled to have the first major transatlantic strategic alliance in the industry, involving joint flights, marketing and sales activities, catering, ground handling, maintenance, and purchasing. Northwest was the fourth largest American carrier at that time, but was “in Chapter 11,” balancing on the verge of bankruptcy, and in dire need of cash. To help their new ally out, KLM gave a US$400 million capital injection, in return for 20% of the shares and the option to increase this to a majority within a few years. KLM and Northwest were on their way to becoming a virtual transatlantic company – a marriage “made in the heavens”.

Commercially the deal was a success, but relationally the alliance was a Shakespearean drama. KLM gave up its hopes of an alliance with Swissair, SAS, and Delta, to remain loyal to Northwest, but as soon as Northwest emerged from Chapter 11, it blocked KLM’s efforts to increase its shareholding. In the resulting two-year legal shooting match between 1995 and 1997, relations deteriorated sharply and the goose laying the golden eggs threatened to be killed in the cross fire. Disappointed and dismayed, Bouw decided to give in, selling Northwest back its shares, in return for a prolongation of the alliance, after which he immediately resigned. His successor, and current CEO, Leo van Wijk, has managed the alliance since then and it is still “up in the air,” in both senses of the expression. His most important conclusion has been that a collaborative alliance is not only about working together towards a common interest, but equally about being assertive with regard to one’s own interests. Alliances are not only *cooperative*, but also have *competitive* aspects.

What this example of KLM and Northwest illustrates is that firms constantly struggle with the tension created by the need to work *together with others*, while simultaneously needing to pursue their *own interests*. Firms cannot isolate themselves from their environments, but must actively engage in relationships with suppliers and buyers, while selectively teaming up with other firms inside and outside their industry to attain mutual benefit. But while they are collaborating to create joint value, firms are also each other’s rivals when it comes to dividing the benefits. These opposite demands placed on organizations are widely referred to as the pressures for *competition* and *cooperation* (e.g. Brandenburger & Nalebuff, 1996; Lado, Boyd and Hanlon, 1997). In the following sections both pressures will be examined in more detail.

8.3.1 The Demand for Inter-Organizational Competition

Competition can be defined as the act of working against others, where two or more organizations' goals are *mutually exclusive*. In other words, competition is the rivalry behavior exhibited by organizations or individuals where one's win is the other's loss.

Organizations need to be competitive in their relationships with others. As the interests and/or objectives of different organizations are often mutually exclusive, each organization needs to be determined and assertive in pursuing its own agenda. Each organization needs to be willing to confront others to secure its own interests. Without the will to engage in competitive interaction, the organization will be at the mercy of more aggressive counterparts – e.g. suppliers will charge excessively for products, buyers will express stiff demands for low prices, governments will require special efforts without compensation, and rival firms will poach among existing customers. Taking a competitive posture towards these external parties means that the organization is determined to assert its own interests and fight where necessary.

The resulting competitive relations can vary between open antagonism and conflict on the one hand, and more subtle forms of friction, tension and strain on the other. Blatant competitive behavior is often exhibited towards organizations whose objectives are fully in conflict – most clearly other producers of the same goods, attempting to serve the same markets (aptly referred to as *the competition*). Highly competitive behavior can also be witnessed where a supplier and a buyer confront each other for dominance in the industry value chain (e.g. Porter, 1980; Van Tulder & Junne, 1988). A more restrained competitive stance can be observed where organizations' objectives are less at odds, but assertiveness is still important to protect the organization's interests. Negotiation and bargaining will commonly be employed under these circumstances.

To be competitive an organization must have the power to overcome its rivals and it must have the ability and will to use its power. Many factors shape the power of an organization, but its relative level of resource dependence is one of the most important determining elements. The more independent the organization, and the more others are dependent on it, the more power the organization will wield. In competitive relationships maneuvering the other party into a relatively dependent position is a common approach. In general, calculation, bargaining, maneuvering, building coalitions and outright conflict are all characteristic for the competitive interaction between organizations.

8.3.2 The Demand for Inter-Organizational Cooperation

Cooperation can be defined as the act of working together with others, where two or more organizations' goals are *mutually beneficial*. In other words, cooperation is the collaborative behavior exhibited by organizations or individuals where both sides need each other to succeed.

Organizations need to be cooperative in their relationships with others. The interests and/or objectives of different organizations are often complementary and working together can be mutually beneficial. Therefore, organizations must be willing to behave as partners, striving towards their common good. Without the will to engage in cooperative interaction, the organization will miss the opportunity to reap the advantages of joint efforts – e.g. developing new products together with suppliers, creating a better service offering together with buyers, improving the knowledge infrastructure together with government and setting new technical standards together with other firms in the industry. Taking a cooperative posture towards these external parties means that the organization is determined to leverage its abilities through teamwork.

The resulting cooperative relations can vary between occasional alliances on the one hand, to tight-knit, virtual integration on the other. Strongly cooperative behavior can be witnessed where the long-term interests of all parties are highly intertwined. This type of *symbiotic* relationship can be found between the producers of complementary goods and services, where success by one organization will positively impact its partners – aptly referred to as the *network effect* (Arthur, 1994; Shapiro & Varian, 1998). Highly cooperative behavior can also be observed were suppliers and buyers face a joint challenge (such as government regulation, an innovative technology or a new market entrant) that can only be tackled by significant mutual commitment to a shared objective.

More restrained cooperative behavior is common where there is potential for a *positive sum game,* but some parties seek to optimize their own returns to the detriment of others. Under such circumstances, exhibiting cooperative behavior does not mean being naïve or weak, but creating conditions under which the long term shared interests prevail over the short term temptation by some to cheat their partners. An important ingredient for overcoming the lure of opportunism is to build long-term commitment to one another, not only in words and mentality, but also practically, through a high level of interdependence. Where organizations are tightly linked to one another, the pay-off for cooperative behavior is usually much more enticing than the possibility to profit from the dependence of one's partner. But to be willing to commit to such a high level of interdependence, people on both sides of a relationship need to trust each other's intentions and actions, while there must be coordination and conflict-resolution mechanisms in place to solve evolving issues (e.g. Dyer, Kale and Singh, 2001; Simonin, 1997).

8.4 PERSPECTIVES ON NETWORK LEVEL STRATEGY

Firms need to be able to engage in competition and cooperation simultaneously, even though these demands are each other's opposites. Firms need to exhibit a strongly *cooperative posture* to reap the benefits of collaboration, and they need to take a strongly *competitive stance* to ensure that others do not block their interests. Some theorists conclude that what is required is *co-opetition* (Brandenburger & Nalebuff, 1996). But while a catchy word, executives are still left with the difficult question of how to deal with these conflicting demands. To meet the pressure for cooperation, firms must actually become part of a broader 'team', spinning a web of close collaborative relationships. But to meet the pressure for competition, firms must not become too entangled in restrictive relationships, but rather remain free to maneuver, bargain and attack, with the intention of securing their own interests. In other words, firms must be *embedded* and *independent* at the same time – embedded in a network of cooperative interactions, while independent enough to wield their power to their own advantage.

The question that seems to be dividing strategizing executives is whether firms should be more embedded or more independent. Should firms immerse themselves in broader networks to create strong groups, or should they stand on their own? Should firms willing engage in long-term interdependence relationships or should they strive to remain as independent as possible? Should firms develop network level strategies at all, or should the whole concept of multi-firm strategy-making be directed to the garbage heap?

As before, here the two diametrically opposed positions will be identified and discussed, to be able to formulate statements for measuring executives' preferences. On the one side of the spectrum, there are strategists who believe that it is best for companies to be primarily competitive in their relationships to all outside forces. They argue that firms should remain independent and interact with other companies under market conditions as much as

possible. As these strategists emphasize the discrete boundaries separating the firm from its 'competitive environment', this point of view is called the *discrete organization perspective*. At the other end of the spectrum, there are strategists who believe that companies should strive to build up more long-term cooperative relationships with key organizations in their environment. They argue that firms can reap significant benefits by surrendering a part of their independence and developing close collaborative arrangements with a group of other organizations. This point of view will be referred to as the *embedded organization perspective*.

8.4.1 The Discrete Organization Perspective

Executives taking the discrete organization perspective view companies as independent entities competing with other organizations in a hostile market environment. In line with neoclassical economics, this perspective commonly emphasizes that individuals, and the organizations they form, are fundamentally motivated by aggressive self-interest and therefore that competition is the natural state of affairs. Suppliers will try to enhance their bargaining power vis-à-vis buyers with the aim of getting a better price, while conversely buyers will attempt to improve their negotiation position to attain better quality at lower cost. Competing firms will endeavor to gain the upper hand against their rivals if the opportunity arises, while new market entrants and manufacturers of substitute products will consistently strive to displace incumbent firms (e.g. Porter, 1980, 1985).

In such a hostile environment it is a strategic necessity for companies to strengthen their competitive position in relation to the external forces. The best strategy for each organization is to obtain the market power required to get good price/quality deals, ward off competitive threats, limit government demands and even determine the development of the industry. Effective power requires independence and therefore heavy reliance on specific suppliers, buyers, financiers or public organizations should be avoided.

The label 'discrete organization' given to this perspective refers to the fact that each organization is seen as being detached from its environment, with sharp boundaries demarcating where the outside world begins. The competitive situation is believed to be *atomistic*, that is, each self-interested firm strives to satisfy its own objectives, leading to rivalry and conflict with other organizations. Vertical interactions between firms in the industry column tend to be transactional, with an emphasis on getting the best possible deal. It is generally assumed that under such market conditions the interaction will be of a *zero-sum nature*, that is, a fight for who gets how much of the pie. The firm with the strongest bargaining power will usually be able to appropriate a larger portion of the 'economic rent' than will the less potent party. Therefore, advocates of the discrete organization perspective emphasize that the key to competitive success is the ability to build a powerful position and to wield this power in a calculated and efficient manner. This might sound Machiavellian to the faint-hearted, but it is the reality of the market place that is denied at one's own peril.

Essential for organizational power is the avoidance of *resource dependence*. Where a firm is forced to lean on a handful of suppliers or buyers, this can place the organization in a precariously exposed position. To executives taking a discrete organization perspective, such dependence on a few external parties is extremely risky, as the other firm will be tempted to exploit their position of relative power to their own advantage. Wise firms will therefore not let themselves become overly dependent on any external organization, certainly not for any essential resources. This includes keeping the option open to exit from the relationship at will – with low barriers to exit the negotiation position of the firm is significantly stronger. Therefore the firm must never become so entangled with outsiders, that it cannot rid themselves of them at the drop of a hat. The firm must be careful that in a web of

relationships it is the spider, not the fly (e.g. Pfeffer & Salancik, 1978; Ruigrok and Van Tulder, 1995).

Keeping other organizations at *arm's length* also facilitates clear and business-like interactions. Where goods and services are bought or sold, distinct organizational boundaries help to distinguish tasks, responsibilities, authority and accountability. But as other firms will always seek to do as little as possible for the highest possible price, having clear contracts and a believable threat to enforce them, will serve as a method to ensure discipline. Arm's length relations are equally useful in avoiding the danger of vital information leaking to the party with whom the firm must (re) negotiate.

In their relationships with other firms in the industry it is even clearer that companies' interests are mutually exclusive. More market share for one company must necessarily come at the expense of another. Coalitions are occasionally formed to create power blocks, if individual companies are not strong enough to compete on their own. Such *tactical alliances* bring together weaker firms, not capable of doing things independently. But 'competitive collaboration' is usually short lived – either the alliance is unsuccessful and collapses, or it is successful against the common enemy, after which the alliance partners become each other's most important rivals.

Proponents of the discrete organization perspective argue that collaborative arrangements are always second best to doing things independently. Under certain conditions, weakness might force a firm to choose for an alliance, but it is always a tactical necessity, never a strategic preference. Collaborative arrangements are inherently risky, fraught with the hazard of opportunism. Due to the ultimately competitive nature of relationships, allies will be tempted to serve their own interests to the detriment of the others, by maneuvering, manipulating or cheating. The collaboration might even be a useful ploy, to cloak the company's aggressive intentions and moves. Collaboration, it is therefore concluded, is merely "competition in a different form" (Hamel, Doz & Prahalad, 1989). Hence, where collaboration between firms really offers long-term advantages, a merger or acquisition is preferable to the uncertainty of an alliance.

Where collaboration is not the tool of the weak, it is often a conspiracy of the strong to inhibit competition. If two or more formidable companies collaborate, chances are that the alliance is actually ganging up on a third party, for instance on buyers. In such cases the term 'collaboration' is just a euphemism for *collusion* and not in the interest of the economy at large.

Worse yet, collaboration is usually also bad for a company's long-term health. A highly competitive environment is beneficial for a firm, because it provides the necessary stimulus for companies to continually improve and innovate. Strong adversaries push companies towards competitive fitness. A more benevolent environment, cushioned by competition-inhibiting collaboration, might actually make a firm more content and less eager to implement tough changes. In the long run this will make firms vulnerable to more aggressive companies, battle-hardened by years of rivalry in more competitive environments.

In conclusion, the basic assumption of the discrete organization perspective is that companies should not develop network level strategies, but should strive for 'strategic self-sufficiency'. Collaborative arrangements are a tactical tool, to be selectively employed. The sentiment of this perspective has been clearly summarized by Porter (1990; 224): "alliances are rarely a solution...no firm can depend on another independent firm for skills and assets that are central to its competitive advantage...Alliances tend to ensure mediocrity, not create world leadership."

8.4.2 The Embedded Organization Perspective

Strategists taking an embedded organization perspective are fundamentally at odds with the assumption that competition is the predominant factor determining the interaction between organizations. Business isn't war, so to approach all interactions from an antagonistic angle is seen as overly pessimistic, even cynical. On the contrary, it is argued that business is about value creation, which is inherently a *positive-sum* activity. Creating value brings together organizations towards a common goal, as they can achieve more by working together than by behaving autistically. In the modern economy, no organization can efficiently perform all activities in-house, as the division of labor has encouraged companies to specialize and outsource as many non-core activities as possible. Companies are necessarily cogs in the larger industrial machine and they can achieve little without working in unison with the other parts of the system. In the embedded organization perspective, atomistic competition is a neoclassical theoretical abstraction that seriously mischaracterizes the nature of relationships between organizations. In reality, cooperation is the predominant factor determining inter-organizational relations. *Symbiosis*, not aggression, is the fundamental nature of economic functioning (e.g. Jarillo, 1988; Moore, 1996).

A company can always find many organizations in its environment with which it shares an interest and whose objectives are largely parallel to its own (Child & Faulkner, 1998). A company might want to develop new products together with its buyers, optimize the logistical system together with its suppliers, expand the industry's potential together with other manufacturers, link technological standards with other industries and improve employment conditions together with the government. In general, most organizations have a stronger interest in increasing the size of the pie, than in deciding who gets what – keeping the focus on making a success of value creation eases the process of finding an equitable solution to the issue of value distribution.

The label 'embedded organization' given to this perspective refers to the fact that firms are becoming increasing integrated into webs of mutually dependent organizations (e.g. Gnyawali and Madhavan, 2001; Granovetter, 1985). As companies strive to focus on a limited set of core competences and core business processes, they have moved to outsource as many non-core activities as possible. But as firms have attempted to further specialize by outsourcing activities that are close to their core business, they have become more vulnerable to outside suppliers and the need for explicit coordination of activities has often remained high. The outsourcing of such essential and coordination-intensive activities can only take place where the other party can be trusted to closely collaborate with the joint interests in mind. Of course, a company will not quickly move to such dependence on an outside supplier. But as experience and trust build over time, a *strategic partnership* can develop, where both sides come to accept the value of the close cooperation (e.g. Axelsson and Easton, 1992; Lorenzoni and Baden-Fuller, 1995).

For a firm to willingly surrender a part of its independence, it must be certain that its partners are also willing to invest in the relationship and will not behave opportunistically. Ideally, therefore, durable partnerships are based on *mutual dependence* and *reciprocity*. Both sides of the relationship must need each other, which gives an important incentive for both to find solutions to the disputes that will inevitably pop up. A balance in the benefits to be gained and the efforts to be exerted will also contribute to the success of a long-term collaborative relationship.

While such close collaborative relationships place a firm in a position of resource dependence, the benefits are much larger. By specializing in a certain area, the firm can gain scale and experience advantages much faster. Specialization helps the firm to focus on a more limited set of core competences, which can be developed more efficiently and rapidly than if

the firm were a 'conglomerate' of activities. At the same time the firm can tap into the *complementary resources* (Richardson, 1972) developed by its co-specialized partners. These complementary resources will usually be of higher quality and lower price than if the firm had built them up independently.

Specialized firms also use collaborative arrangements to quickly combine their resources with industry outsiders, to create new products and services. As product and business innovation is high paced and usually requires the combination of various types of resources, developing everything in isolation is unworkable for most firms. By teaming up with other firms that have complementary resources, a company can make the most of its own resource base, without having to build up other resources from scratch. But again trust is needed to engage in such a joint venture, as there are significant downside risks that the firm needs to take into account.

So, from the embedded organization perspective, collaboration is not competition in disguise, but a real alternative means of dealing with other organizations (e.g. Contractor and Lorange, 1988; Piore and Sabel, 1984). Successful firms embed themselves in webs of cooperative relationships, developing strategies together with their partners. These networks might compete against other networks (e.g. Gomes-Casseres, 1994; Hamilton & Woolsey Biggart, 1988; Weidenbaum & Hughes, 1996), but even here the relationships need not be fundamentally antagonistic. Proponents of the embedded organization perspective do not believe that firms should become obsessed with 'putting the competition out of business', as this again reduces business to win-lose, zero-sum game. Firms should be focused on creating value and avoiding direct confrontation with other manufacturers, emphasizing the opportunity for a win-win, positive sum game (e.g. Chan Kim and Mauborgne, 1999; Moore, 2000). With this approach, firms in the same industry will recognize that they often have parallel interests as well. Setting industry standards, lobbying the government, finding solutions to joint environmental problems, improving the image of the industry, investing in fundamental research and negotiating with the unions are just a few of the issues where cooperation can be fruitful.

8.5 CONCLUSION

So, do executives believe that it is wise to form network level strategies or not? Do they think that firms should consciously embed themselves in a web of durable collaborative relationships, emphasizing the value of cooperative inter-organizational interactions for realizing their long-term aims? Or do they suppose that it is better for firms to try to remain as independent as possible, emphasizing the value of competitive power in achieving their strategic objectives? Is their view that it should be "all for one, one for all" or do they believe that the strong must stand alone?

In table 8.1 the main differences between the discrete organization perspective and the integrated organization perspective have been summarized. These two opposing poles have been translated into a set of 24 policy statements for measuring executives' views, as part of the strategy profiler psychometric instrument. An overview of these statements is given in table 8.2.

TABLE 8.1
Discrete organization versus embedded organization perspective

	Discrete Organization Perspective	**Embedded Organization Perspective**
Emphasis on	Competition over cooperation	Cooperation over competition
Preferred position	Independence	Interdependence
Environment structure	Discrete organizations (atomistic)	Embedded organizations (networked)
Firm boundaries	Distinct & defended	Fuzzy & open
Inter-firm relations	Arm's length & transactional	Close & structural
Interaction outcomes	Mainly zero-sum (win/lose)	Mainly positive-sum (win/win)
Interaction based on	Bargaining power & calculation	Trust & reciprocity
Network level strategy	No	Yes
Use of collaboration	Temporary coalitions (tactical alliance)	Durable partnerships (strategic alliance)
Collaborative arrangement	Limited, well-defined, contract-based	Broad, open, relationship-based

TABLE 8.2
Statements representing the opposite perspectives

Discrete Organization Perspective		**Embedded Organization Perspective**	
11.1	When entering an entirely new market, a good strategy is to do so independent of firms already active in that market.	12.1	When entering an entirely new market, a good strategy is to establish a joint venture with a firm already active in that market.
11.2	When developing new products, firms should only seek partners if they lack the ability to do it themselves.	12.2	When developing new products, firms should routinely seek partners to bring in different ideas and know-how.
11.3	In alliances between firms, partners can never be fully trusted.	12.3	In alliances between firms, building trust is essential for success.
11.4	The outsourcing of essential business activities should only be done if there are various suppliers competing for the job.	12.4	The outsourcing of essential business activities can be done to one unique supplier, if a mutually beneficial deal can be made.
11.5	When working together with suppliers, firms should be able to switch to other suppliers at short notice.	12.5	When working together with suppliers, firms should be able to switch to other suppliers at short notice.
11.6	When working together with suppliers, it is a bad idea to tell them what your strategy is.	12.6	When working together with suppliers, it is a good idea to tell them what your strategy is.
11.7	When working together with suppliers, you should keep your market intelligence to yourself.	12.7	When working together with suppliers, it is mutually beneficial to share your market intelligence with them.
11.8	In relationships between buyers and sellers, if one side gains, the other side loses.	12.8	In relationships between buyers and sellers, if one side gains, the other side can also gain.

11.9	Firms should never become dependent on a few key customers.	12.9	Firms should invest in very tight long-term relationships with their customers.
11.10	Partnerships between firms are never stable for very long.	12.10	Cooperation between firms is much more healthy than competition.
11.11	Firms should work as independently as possible, only using temporary alliances if necessary.	12.11	Firms should seek strong partner organisations, with which to build long-term alliances.
11.12	Firms should avoid long-term partnerships, as these limit a firm's freedom to manoeuvre.	12.12	Firms should build long-term partnerships to reach strategic goals that are impossible to achieve independently.

Chapter 9

THE INDUSTRY CONTEXT

9.1 INTRODUCTION

If strategic management is concerned with relating a firm to its environment, then it is essential to know this environment well. In the previous chapters, the factors and actors that shape the external context of the firm have been thoroughly reviewed. While the entire outside world was taken into consideration, emphasis was placed on the direct environment in which a firm needs to compete – its *industry context*. It was concluded that an understanding of competitors, buyers, suppliers, substitutes and potential new entrants, as well as the structural factors that influence their behavior, is invaluable for determining a successful strategy.

A constant theme in the strategy process and strategy content sections was industry change. Knowing the current industry context, it became clear, is not enough to secure an on-going alignment between a firm and its environment. Strategizing executives need to recognize in which direction the industry is developing to be able to maintain a healthy fit. However, what was not addressed in these discussions is how industry development actually takes place. Important questions such as 'what are the drivers propelling industry development?' and 'what patterns of development do industries exhibit?' have not yet be examined. Nor has it been established whether industries develop in the same way and at the same speed, and whether change is always accompanied by the same opportunities and threats. In this chapter, these questions surrounding the issue of *industry development* will be at the center of attention.

For strategizing executives, however, the most important question linked to the issue of industry development is how a firm can move beyond *adapting* to *shaping*. How can a firm, or a group of collaborating firms, modify the structure and competitive dynamics in their industry to gain an advantageous position? How can the industry's evolutionary path be proactively diverted into a particular direction? If a firm would be capable of shaping its industry environment instead of following it, this would give them the potential for creating a strong competitive advantage – they could 'set the rules of the competitive game' instead of having to 'play by the rules' set by others. This topic of *industry leadership* – shaping events as opposed to following them – will be the key focus throughout this chapter, as it also seems to be the main factor underlying the different points of view among executives.

9.2 THE ISSUE OF INDUSTRY DEVELOPMENT

When strategists look at an industry, they are interested in understanding 'the rules of the game' (e.g. Prahalad and Doz, 1987; Hamel, 1996). The industry rules are the demands dictated to the firm by the industry context, which limit the scope of potential strategic

behaviors. In other words, industry rules stipulate what must be done to survive and thrive in the chosen line of business – they determine under what conditions the competitive game will be played. For example, an industry rule could be 'must have significant scale economies', 'must have certain technology' or 'must have strong brand'. Failure to adhere to the rules leads to being selected out.

The industry rules arise from the structure of the industry (e.g. Porter, 1980; Tirole, 1988). All of Porter's five forces can impose constraints on a firm's freedom of action. Where the rules are *strict*, the degrees of freedom available to the strategist are limited. Strict rules imply that only very specific behavior is allowed – firms must closely follow the rules of the game or face severe consequences. Where the rules are looser, firms have more room to maneuver and exhibit distinctive behavior – the level of *managerial discretion* is higher (e.g. Hambrick and Abrahamson, 1995; Carpenter and Golden, 1997).

As industries develop, the rules of competition change – vertical integration becomes necessary, certain competencies become vital or having a global presence becomes a basic requirement. To be able to play the competitive game well, strategizing executives need to identify which characteristics in the industry structure and which aspects of competitive interaction are changing. This is the topic of *dimensions of industry development*, which will be reviewed in more detail below. To determine their response, it is also essential to understand the nature of the change. Are the industry rules gradually shifting or is there a major break with the past? Is the industry development more evolutionary or more revolutionary? A process of slow and moderate industry change will demand a different strategic reaction than a process of sudden and dramatic disruption of the industry rules. This topic of *paths of industry development* will also be examined more closely.

As strategists generally like to have the option to shape instead of always being shaped, they need to recognize the determinants of industry development as well. What are the factors that cause the industry rules to change? This subject can be divided into two parts. First, the question of what the *drivers of industry development* are, pushing the industry in a certain direction. Second, the question of what the *inhibitors of industry development* are, placing a brake on changes. Together, these forces of change and forces for stability will determine the actual path of development that the industry will follow. How these abovementioned four topics are inter-related is outlined in figure 9.1.

9.2.1 Dimensions of Industry Development

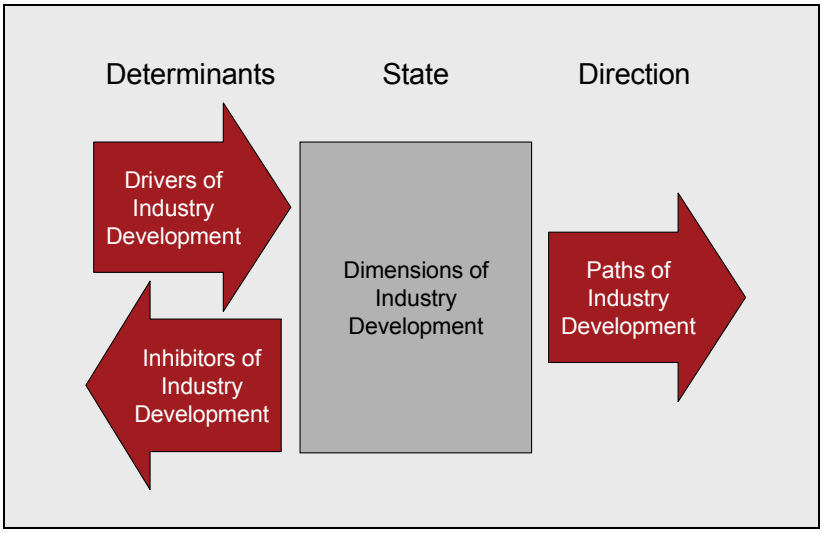
Industry development means that the structure of the industry changes. In chapter 6, the key aspects of the industry structure have already been discussed. Following Porter (1980), five important groups of industry actors were identified (i.e. competitors, buyers, suppliers, new entrants and substitutes) and the underlying factors determining their behavior were reviewed. Industry development (which Porter calls *industry evolution*) is the result of a change in one or more of these underlying factors.

As Porter already indicates, the industry structure can be decomposed into dozens of elements, each of which can change, causing a shift in industry rules. Here it is not the intention to go through all of these elements, but to pick out a number of important structural characteristics that require special attention. Each one of these structural characteristics represents a dimension along which significant industry developments can take place:

- *Convergence – divergence*. Where the business models that firms employ increasing start to resemble each other, the industry is said to be moving towards convergence (e.g. insurance and airline industries). Oppositely, where many firms introduce new business models, the industry is said to be developing towards more diversity (e.g. car retailing and

restaurant industries). Higher diversity can be due to the *mutation* of existing firms, as they strive to compete on a different basis, or the result of new entrants with their own distinct business model. Convergence is the consequence of *adaptation* by less successful firms to a 'dominant design' in the industry and the *selecting out* of unfit firms incapable of adequate and timely adaptation (e.g. Hannan and Freeman, 1977; Porter, 1980). Generally, patterns of divergence and convergence can be witnessed in all industries, although the amount of mutation and the pressure for convergence can greatly differ, as can the overall cycle time of an 'evolutionary phase' of mutation and selection (e.g. Aldrich, 1999; Baum and Singh, 1994).

FIGURE 9.1
The issue of industry development



- *Concentration – fragmentation*. Where an increasing share of the market is in hands of only a few companies, the industry is said to be developing towards a more concentrated structure (e.g. aircraft and food retailing industries). Conversely, where the average market share of the largest companies starts to decrease, the industry is said to be moving towards a more fragmented structure (e.g. airline and telecom services industries). Concentration can be due to mergers and acquisitions, or the result of companies exiting the business. Fragmentation can happen when new companies are formed and grab a part of the market, or through the entry of existing companies into the industry. In a concentrated industry it is much more likely that only one or two firms will be *dominant* than in a fragmented industry, but it is also possible that the industry structure is more *balanced*.
- *Vertical integration – fragmentation*. Where firms in the industry are becoming involved in more value-adding activities in the industry column, the industry is said to be developing towards a more vertically integrated structure (e.g. media and IT service providers). Conversely, where firms in the industry are withdrawing from various value-adding activities and 'going back to the core', the industry is said to be moving towards a more, disintegrated, layered or vertically fragmented structure (e.g. telecom and

automotive industries). It is even possible that the entire vertical structure changes, if a new business model has major consequences upstream and/or downstream. In recent years, technological changes surrounding IT and the internet have triggered a number of such instances of industry reconfiguration (e.g. travel and encyclopedia industries). However, even though we are now equipped with more fashionable terms (e.g. *deconstruction*), such industry wide transformations of the value creation process are in themselves not new (e.g. PCs and the computer industry in 1980s; airplanes and the travel industry in the 1950s) (e.g. Evans and Wurster, 1997; Porter, 2001).

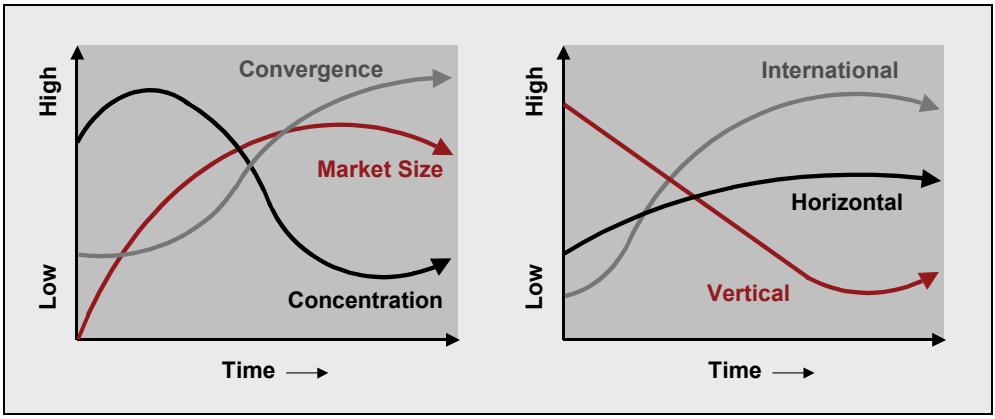
- *Horizontal integration – fragmentation.* Where the boundaries between different businesses in an industry become increasingly fuzzy, the industry is said to be developing towards a more horizontally integrated structure (e.g. consumer electronics and defense industries). Conversely, where firms become more strictly confined to their own business, the industry is said to be moving towards a more segmented or horizontally fragmented structure (e.g. construction and airline industries). Links between businesses can intensify or wane, depending on the mobility barriers and potential cross-business synergies. However, horizontal integration and fragmentation are not limited to the *intra-industry* domain. *Inter-industry* integration between two or more industries can also increase, creating a more or less open competitive space (Hamel and Prahalad, 1994) with few mobility barriers (e.g. the digital industries). Inter-industry integration can also occur where the producers of different products and services are complementary and/or converge on a common standard or platform (e.g. Palm OS and Linux), making them *complementors* (e.g. Cusumano and Gawer, 2002; Moore, 1996). Yet, the opposite trend is possible as well, whereby an industry becomes more isolated from neighboring sectors (e.g. accountancy).
- *International integration – fragmentation*. Where the international boundaries separating various geographic segments of an industry become increasingly less important, the industry is said to be developing towards a more internationally integrated structure (e.g. food retailing and business education industries). Conversely, where the competitive interactions in an industry are increasingly confined to a region (e.g. Europe) or country, the industry is said to be moving towards a more internationally fragmented structure (e.g. satellite television and internet retailing). These developments will be more thoroughly examined in chapter 10, which deals with the international context.
- *Expansion – contraction*. Industries can also differ with regard to the structural nature of the demand for their products and/or services. Where an industry is experiencing an ongoing increase in demand, the industry is said to be in growth or expansion. Where demand is constantly receding, the industry is said to be in decline or contraction. If periods of expansion are followed by periods of contraction, and vice versa, the industry is said to be *cyclical*. A prolonged period of expansion is usually linked to the growth phase of the industry life cycle (e.g. Moore, 1999; Porter, 1980), while contraction is linked to the decline phase, but often it is rather difficult to apply the 'life cycle' concept to an entire industry (instead of to a product or technology). As industry growth (expansion) can easily follow a period of industry decline (contraction), the life cycle model has little descriptive value – what does it mean to be mature? – and even less predictive value.

9.2.2 Paths of Industry Development

The development of an industry can be mapped along any one of the dimensions listed above. The most popular is to track the pattern of expansion and contraction, to gain some indication

of the life cycle phase in which the industry might have arrived. Another frequently analyzed characteristic is the level of concentration, commonly using a *concentration index* to measure the market share of the four or eight largest companies. But it is equally viable to trace the trajectory of vertical, horizontal or international integration. In figure 9.2 examples of these paths of industry development are given.

FIGURE 9.2
Paths of industry development



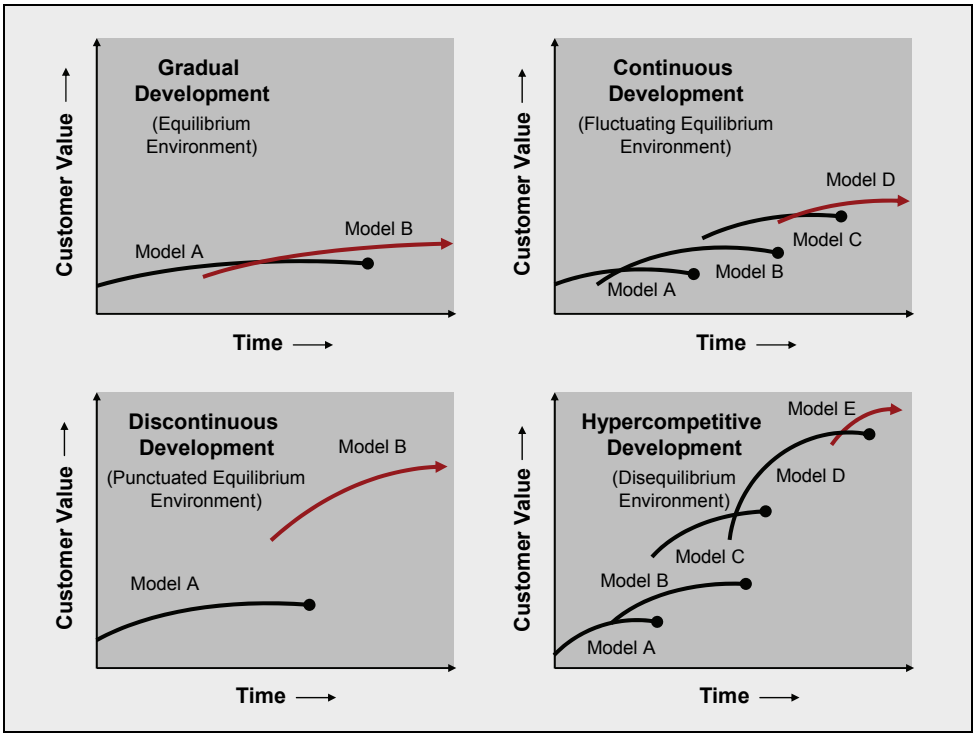
In figure 9.3 one particular element of the convergence-divergence dimension has been selected for further magnification. As discussed above, in the development of an industry a particular business model can become the dominant design around which the rest of the industry converges. A strategically relevant development occurs when the dominant business model is replaced by a new business model that offers customers higher value. In figure 9.3, four generic patterns of industry development are outlined, each describing a different type of transition from the old dominant model to the new (Burgelman and Grove; D'Aveni, 1999):

- *Gradual development*. In an industry where one business model is dominant for a long period of time and is slowly replaced by an alternative that is a slight improvement, the development process is gradual. The firms adhering to the dominant design will generally have little trouble adapting to the new rules of the game, leading to a situation of relative stability. Competition can be weak or fierce, depending on the circumstances, but will take place on the basis of the shared rules of the game. In this type of environment, companies with an established position have a strong advantage.
- *Continuous development*. In an industry where changes to the dominant business model are more frequent, but still relatively modest in size, the development process is continuous. While firms need not have difficulties adjusting to each individual change to the rules of the game, they can fall behind if they do not keep up with the pace of improvement. In this type of environment, rapid adaptation to developments will strengthen the competitive position of firms vis-à-vis slow movers.
- *Discontinuous development*. In an industry where one business model is dominant for a long period of time and then suddenly displaced by a radically better one, the development process is discontinuous. The firms riding the wave of the new business model will generally have a large advantage over the companies that need to adjust to an

entirely different set of industry rules. Where industry incumbents are themselves the 'rule breakers' (Hamel, 1996), they can strongly improve their position vis-à-vis the 'rule takers' in the industry. But the business model innovator can also be an industry outsider, who gains entrance by avoiding competition with established players on their terms (e.g. Bower and Christensen, 1995; Slywotsky, 1996).

- *Hypercompetitive development*. In an industry where business models are frequently pushed aside by radically better ones, the development process is hypercompetitive (D'Aveni, 1994). The rules of the game are constantly changing, making it impossible for firms to build up a sustainably dominant position. The only defense in this type of environment is offense – being able to outrun existing competitors being innovating first and being able to outperform new rule breakers at their own game.

FIGURE 9.3
Patterns of dominant business model development

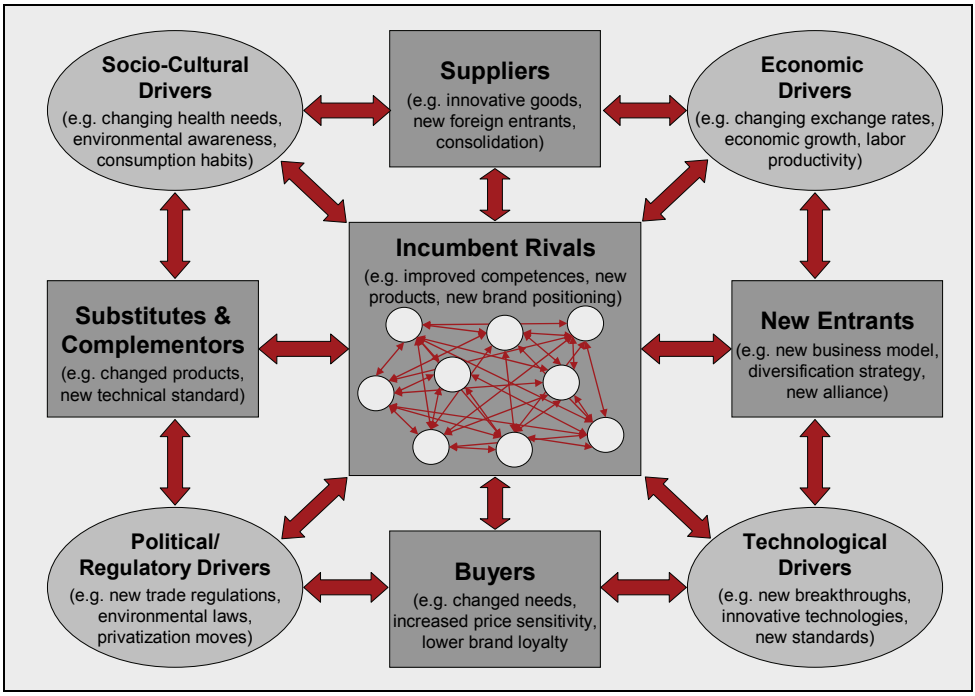


9.2.3 Drivers of Industry Development

There is a sheer endless list of factors in the environment that can change and can influence the direction of industry development. Following the categorization made in chapter 8, these factors can be divided into change drivers that are external or internal to the industry (see figure 9.4). The change drivers in the contextual environment can be roughly split into socio-cultural, economic, political/regulatory and technological forces for change. The change

drivers in the industry environment can be divided into groups surrounding suppliers, buyers, incumbent rivals, new entrants, and substitutes and complementors.

FIGURE 9.4
Drivers of industry development



As the arrows indicate, change in a complex system like an industry does not always start in one discernable part and then reverberate throughout the whole. Rather, change can also be the result of the interplay of various elements in the system, without any clear start or ending point. Yet, for the discussion on shaping industry development it is important to recognize the distinction between industry changes that are largely triggered by an individual firm, as opposed to broader, system-wide changes, for which no one actor can claim responsibility. Where one firm is the major driver of industry development, it can claim *industry leadership*. But if there is no industry leader and the evolution of the industry is due to the complex interaction of many different change drivers, it is said that the *industry dynamics* determine the path of industry development.

9.2.4 Inhibitors of Industry Development

Forces of change do not always go unopposed. In the discussion on strategic change in chapter 4, the sources of *organizational rigidity* were reviewed, each of which acts as an inhibitor to organizational change. In the same way, there are many sources of *industry rigidity*, making the industry rules much more difficult to bend or break. Industry rigidity can be defined as the lack of susceptibility to change. If an industry is rigid, the rules of the game

cannot be altered and competitive positions are relatively fixed. The opposite term is *industry plasticity* – an industry's susceptibility to change.

A large number of factors can contribute to rigidity, thereby inhibiting industry development. Some of the most important ones are the following:

- *Underlying conditions*. Basically, some rules might be immutable because the underlying industry conditions cannot be changed. In some industries economies of scale are essential (e.g. airplane manufacturing, merchant shipping), where in others economies of scale are not of importance (e.g. wedding services, dentistry services). In some industries buyers are fragmented (e.g. newspapers, moving services), while in others they are highly concentrated (e.g. defense systems, harbor construction). In some industries buyers value product differentiation (e.g. clothing, restaurants), while in others bulk producers must compete on price (e.g. chemicals, general construction). Many of these structural factors are inherent to the industry and defy any attempts to change them (e.g. Bain, 1959; Porter, 1980).
- *Industry integration*. Besides the limited plasticity of individual aspects of the industry context, it is also important to recognize that some industries are particularly rigid because of the complex linkages between various aspects of the industry. For example, to be a rule breaking music company not only requires developing new delivery methods via the internet, but also getting electronics manufacturers to adopt the new standards, finding ways to safeguard copyrights, working together with governments to find new policing methods, and not least to change the buying behavior of consumers. Such interrelations between various elements of the industry can make it particularly difficult to actually influence the direction of events over time. The industry can become *locked in* to a specific structure for a long period of time (e.g. Arthur, 1994; Shapiro and Varian, 1998).
- *Power structures*. The industry rules can also be kept in place by those who feel they are better off with the status quo. Powerful industry incumbents often have little to gain and much to lose. They have established positions and considerable *sunk costs*, in the form of historical investments in technology, competencies, facilities and relationships, which makes them reluctant to support changes to the rules of the game. Hence, rule changers are usually vehemently resisted by existing firms and denied support by potential suppliers and buyers. For example, rivals might attack a rule breaker by lowering prices, launching a media campaign, or even lobbying government regulators to impose legal rules. Especially where a rule breaker needs allies to secure supplies, distribution or a new standard will it be vulnerable to the countermoves of parties with a vested interest in the current structure (e.g. Ghemawat, 1991; Moore, 2000).
- *Risk averseness*. Challenging the industry rules is not only a risky step for the rule breaker, but also for many other parties involved. Customers might be hesitant about a new product or service until it has a firmer track record. Suppliers and distributors might worry whether the initial investments will pay off and what the countermoves will be of the established companies. The more risk averse the parties in the industry, the more rigid will be the industry rules (e.g. Christensen, 1997; Parolini, 1999).
- *Industry recipes*. An industry recipe is a widely held perception among industry incumbents regarding the actual rules of the game in the industry. In other words, an industry recipe is the cognitive map shared by industry incumbents about the structure and demands of an industry. Such a common understanding of the rules of the game can develop over time through shared experiences and interaction – the longer people are in the industry and converse with each other, the greater the chance that a consensus will

grow about 'what makes the industry tick'. Thus, the industry recipe can limit people's openness to rule changers, who challenge the industry orthodoxy (e.g. Baden-Fuller and Stopford, 1992; Spender, 1989).

- *Institutional pressures*. While the industry recipe is a shared understanding of how the industry actually functions, industry incumbents usually also share norms of what constitutes socially acceptable economic behavior. Companies experience strong pressures from government, professional associations, customers, consultants, trade unions, pressure groups and other industry incumbents prescribing permissible strategies and actions, and generally internalize these behavioral standards. Such conformity to institutional pressures gives companies legitimacy, but makes them less willing to question industry conventions, let alone work together with a maverick rule breaker (e.g. Aldrich and Fiol, 1994; Oliver, 1997).

Taken together, these historically determined factors inhibit developments in the industry. It is said that industry evolution is *path dependent* – the path that the industry has traveled in the past will strongly limit how and in which direction it can develop in future. In other words, 'history matters', setting bounds on the freedom to shape the future.

9.3 THE TENSION BETWEEN COMPLIANCE AND CHOICE

Yet, the question is whether firms should attempt to shape their industries at all, given the required effort and apparent risk of failure. There might be attractive rewards if a firm can lead industry developments, but trying to break industry rules that turn out to be immutable can be a quick way to achieve bankruptcy. Being an industry leader might sound very proactive, and even heroic, but it is potentially suicidal if the industry context defies being shaped.

This duality of wanting to change the industry rules that are malleable, while needing to adapt to the industry rules that are fixed, is the tension central to dealing with the industry context. On the one hand, executives must be willing to irreverently transgress widely acknowledged industry rules, going against what they see as the industry recipe. On the other hand, executives must respectfully accept many characteristics of the industry structure and play according to existing rules of the competitive game. Yet, these conflicting demands of being irreverent and respectful towards the industry rules are difficult for strategists to meet at the same time.

Where firms cannot influence the structure of their industry, *compliance* to the rules of the game is the strategic imperative. Under these circumstances, the strategic demand is for executives to adapt the firm to the industry context. Where firms do have the ability to manipulate the industry structure, they should exercise their freedom of *choice* to break the industry rules. In such a case, the strategic demand is for executives to try to change the terms of competition in their own favor.

This tension between compliance and choice has been widely acknowledged in the strategic management literature (e.g. Porter, 1980; Hrebiniak and Joyce, 1985). The pressure for compliance has usually been presented as a form of *environmental determinism*, as the industry developments force firms to adapt or be selected out (e.g. Astley and Van der Ven, 1983; Wilson, 1992). The freedom of choice has often been labeled as *organizational voluntarism*, to convey the notion that industry developments can be the result of the willful actions of individual organizations (e.g. Bettis & Donaldson, 1990; Handy, 1974). In the following sections both compliance and choice will be further examined.

9.3.1 The Demand for Firm Compliance

It goes almost without saying that organizations must, to a large extent, adapt themselves to their environments. No organization has the ability to shape the entire world to fit its needs. Therefore, to be successful, all organizations need to understand the context in which they operate and need to play by most of the rules of the game.

After all, the alternative of ignoring the rules is fraught with danger. Probably the most common cause of 'corporate death' is misalignment between the organization and its environment. And misalignment can happen very quickly, as most industries are constantly in flux. Companies can misinterpret the direction of the changes, can fail to take appropriate corrective action, or can be plainly self-centered, paying insufficient attention to external developments. Most companies have enough difficulty just staying attuned to the current rules of the competitive game, let alone anticipating how the industry context will change in future.

To achieve compliance with the industry rules, firms must develop structures, processes and a culture in which listening and adapting to the environment becomes engrained. Firms must learn to become customer and market-oriented, reacting to the 'pull' of the market, instead of 'pushing' their standard approach and pet projects at an unwilling audience. Firm compliance means avoiding the pitfall of organizational arrogance – knowing it better than the market and imposing an approach that no one is waiting for (e.g. Miller, 1990; Whitley, 1999).

9.3.2 The Demand for Strategic Choice

While compliance to the industry rules can be very beneficial, contradicting them can also be strategically valuable. If firms only play by the current rules, it is generally very difficult for them to gain a significant competitive advantage over their rivals. After all, adapting to the current industry structure means doing business in more or less the same way as competitors, with few possibilities to distinguish the organization. In other words, 'compliance' might be another way of saying 'follow a me-too strategy'.

To be unique and develop a competitive advantage, firms need to do something different, something that does not fit within the current rules of the game. The more innovative the rule breaker, the larger will be the competitive advantage over rivals stuck with outdated business models. The more radical the departure from the old industry recipe, the more difficult it will be for competitors to imitate and catch up. Where companies are capable of constantly leading industry developments, they will have the benefit of capturing attractive industry positions before less proactive competitors eventually follow. In other words, there is a strong pressure for firms to attempt to shape the industry rules.

To achieve organizational choice, firms must find ways of escaping the pitfall of organizational conformity – the strict adherence to current industry rules. Firms must develop structures, processes and a culture in which the current industry recipe is constantly questioned, challenged and changed. Executives must come to see that in the long run the easy path of following the industry rules will be less productive than the rocky road of innovation and change (e.g. Prahalad and Hamel, 1994; Kim and Mauborgne, 1999).

9.4 PERSPECTIVES ON THE INDUSTRY CONTEXT

Once again the strategizing executive seems 'stuck between a rock and a hard place'. The pressures for both compliance and choice are clear, but as opposites they are at least partially

incompatible. Developing an organizational culture, structure and processes attuned to compliance will to some extent be at odds with the culture, structure and processes needed to shape an industry. An organization well rehearsed in the art of adaptation and skillful imitation is usually quite different than the one geared towards business innovation and contrarian behavior. How should executives actually deal with the issue of industry development – should they lead or follow?

As before, to measure what executives believe is the best approach, the two diametrically opposed positions will be identified and discussed. On the one hand, there are strategists who argue that industry development is an autonomous process, which individual firms can hardly hope to shape. They believe that compliance to shifting industry characteristics is mandatory – adjust or risk being selected out. This point of view will be referred to as the *industry dynamics perspective*. On the other hand, many strategists believe that the industry context can be shaped in an infinite variety of ways by innovative firms. Therefore, industry development can be driven by firms willing and able to take a leading role. This point of view will be referred to as the *industry leadership perspective*.

9.4.1 The Industry Dynamics Perspective

To those taking an industry dynamics perspective, the popular notion that individual firms have the power to shape their industry is an understandable, but quite misplaced, belief. Of course, the illusion of control is tempting – most people, especially executives, would like to control their own destiny. Most individuals assume they have a free will and can decide their own future. Many governments suppose that they can shape society and many cultures assume that they control nature. In the same way, it is seductive to believe that the individual firm can matter, by influencing the development of its industry.

Unfortunately, this belief is largely a fallacy, brought on by a poor understanding of the underlying industry dynamics. In reality, according to advocates of the industry dynamics perspective, industries are complex systems, with a large number of forces interacting simultaneously, none of which can significantly direct the long-term development of the whole. Firms are relatively small players in a very large game – their behaviors may have some impact on industry development, but none can fundamentally shape the direction of changes. On the contrary, as industries evolve, all firms that do not meet the changing demands of the environment are weeded out. Firms not suited to the new circumstances die, while firms complying with the changing rules prosper. Hence, through selection the industry context determines the group of industry survivors and through the pressures for adaptation the behavior of the remaining firms is determined. In short, the industry shapes the firm, not the other way around.

The industry dynamics perspective is often also referred to as the *industry evolution* perspective, due to the strong parallel with biological evolution. Both evolutionary processes, it is argued, share a number of basic characteristics. In nature, as in business, the survival and growth of entities depends on their fit with the environment. Within each environment variations to a successful theme might come about. These new individuals will thrive, as long as they suit the existing circumstances, but as the environment changes, only those that meet the new demands will not be selected out. Hence, Darwin's well-known principle of ‘survival of the fittest’ is based on a cycle of variation and environmental selection. Many proponents of the industry dynamics perspective think that this biological view of evolution is a good model for what happens in industries – new organizations arise as mutations and only the fittest mutations survive. However, it is usually pointed out that in a business environment, organizations do not vary ‘at random,’ but purposefully, and they possess the ability to adapt to selection pressures during the evolution process (e.g. Nelson & Winter, 1982; Baum &

Singh, 1994). Therefore, organizations have much more flexibility to evolve along with the unfolding industry dynamics than life forms generally do. This process of mutual adaptation and development between entities in the system is called *co-evolution* (e.g. Aldrich, 1999; Moore, 1996). To proponents of the industry dynamics perspective, the objective of a firm should be to co-evolve with its environment, instead of trying to conquer it.

Supporters of the industry dynamics perspective do not deny that every once in a while a rule breaker comes along, turning an industry upside down and spawning dozens of case studies by admiring business professors and hours of television interviews. But these successes must be put into perspective, just as a lottery winner should not encourage everyone to invest their life savings into buying lottery tickets. Yes, some business innovators are successful, but we have no idea of how many challengers were weeded out along the way – only the most spectacular failures make it into the media, but most go unreported. This is called the *survivor's bias*, and the emphasis on case-based reasoning in the field of strategy makes theorists and practitioners equally susceptible to fall in to this trap. But even where a firm has been able to pull off a major industry change once, this does not make them the industry leader going into the future. They might have been the right company in the right place at the right time, able to push the industry in a certain direction once, but to assume that they will win the lottery twice is not particularly realistic.

The conclusion drawn by advocates of the industry dynamics perspective is that 'winning big' by changing the rules of the game sounds easy, fast and spectacular – but isn't. If one thing has been learnt from the internet bubble, it is that changing the rules of the game is extremely difficult, slow and hazardous, and should be left up to those 'high rollers' willing to play for 'high stakes' with only a low chance of success (i.e. venture capitalists and entrepreneurs). For regular companies, such an approach cannot be the mainstay of their strategy. Their basic approach must be to stick close to the shifting currents in their industry, which is challenging enough in most cases. Competitive advantage can be sought, but through hard work within the rules of the game.

The bad news is that this leaves limited freedom to maneuver and that the general level of profitability that a firm can achieve is largely predetermined. Once in a poor industry, a firm's growth and profit potential are significantly limited (Porter, 1980). The good news is that this still leaves plenty of room for a firm to score above the industry average, by positioning better than competitors, but also by adapting better to the ongoing industry changes, or even anticipating changes more skillfully and reacting appropriately.

9.4.2 The Industry Leadership Perspective

Strategists taking an industry leadership perspective fundamentally disagree with the determinism inherent in the industry dynamics perspective. Even in biology, breeders and genetic engineers consistently attempt to shape the natural world. Of course, in industries, as in biology, some rules are immutable. Certain economic, technological, social and political factors have to be accepted as hardly changeable. But the remaining environmental factors that can be manipulated leave strategists with an enormous scope for molding the industry of the future. This belief is reflected in the remark by the Dutch poet Jules Deelder that "even within the limits of the possible, the possibilities are limitless." It is up to the strategist to identify which rules of the game must be respected and which can be ignored in the search for new strategic options. The strategist must recognize both the limits on the possible and the limitless possibilities.

Advocates of the industry leadership perspective do not deny that in many industries the developments are largely an evolutionary result of industry dynamics. For an understanding of the development paths of these 'leaderless' industries, the industry

dynamics perspective offers a powerful explanatory 'lens' – many industries do evolve without a clear industry leader. However, these industries only followed this path because no firm was creative and powerful enough to actively shape the direction of change. A lack of leadership is not the 'natural state of affairs,' but simply weakness on behalf of the industry incumbents. Industry developments can be shaped, but it does require innovative companies, willing to take on the leadership role (e.g. Baden-Fuller & Stopford, 1992; Hamel and Prahalad, 1994).

A leadership role, supporters of this perspective argue, starts with envisioning what the industry of tomorrow might look like. The firm's strategists must be capable of challenging the existing industry recipe and building a new conception of how the industry could function in the future. They must test their own assumptions about which industry rules can be changed and must, in fact, think of ways of 'destroying their current business'. Hamel and Prahalad (1994) refer to this as intellectual leadership, noting that smart strategists also develop *industry foresight*, anticipating which trends are likely to emerge, so that they can be used to the firm's advantage.

Not only must a firm have the intellectual ability to envision the industry's future, but it must also be able to communicate this vision in a manner that other firms and individuals will be willing to buy in. If a vision of the industry of tomorrow is compelling enough, people inside and outside the company will start to anticipate, and will become committed to, that future, making it a self-fulfilling prophecy. This 'inevitableness' of an industry vision can be important in overcoming risk averseness and resistance from industry incumbents (e.g. Levenhagen, Porac, and Thomas, 1995; Moore, 2000).

To actually change the rules of the competitive game in an industry, a firm must move beyond a compelling vision, and work out a new competitive business model. If this new business model is put into operation and seems to offer a competitive advantage, this can attract sufficient customers and support to gain 'critical mass' and break through as a viable alternative to the older business models. To shape the industry, the firm will also need to develop the new competencies and standards required to make the new business model function properly. The better the firm is at building new competencies and setting new standards, alone or in cooperation with others, the more power it will have to determine the direction of industry development (e.g. D'Aveni, 1999; Hamel, 1996).

All of the above mentioned points together add up to quite a considerable task. But then, industry leadership is not easy and changing the industry rules rarely happens overnight. Rather, it can take years, figuring out which rules can be broken and which cannot. It can be a marathon, trying to get the business model right, while building competences and support. Therefore, organizations require perseverance and commitment if they are to be successful as industry shapers (Prahalad and Hamel, 1994).

9.5 CONCLUSION

So, how do executives believe they can best deal with the industry context? Do they suppose that they should concentrate on adapting to the dynamics in the industry, honing their ability to respond to changing demands and to adjust their business model to meet new requirements? Or do they believe that they should take a more proactive role in shaping the future of the industry, changing the rules of the competitive game to suit their own needs?

The main differences between the industry dynamics perspective and the industry leadership perspective have been summarized in table 9.1. An overview of the policy statements that can be derived from these two opposite perspectives is given in table 9.2.

These statements will be used again in chapter 14 to build the 'strategy profiler' measurement instrument.

TABLE 9.1
Industry dynamics versus industry leadership perspective

	Industry Dynamics Perspective	**Industry Leadership Perspective**
Emphasis on	Compliance over choice	Choice over compliance
Industry development	Uncontrollable evolutionary process	Controllable creation process
Change dynamics	Environment selects fit firms	Firm creates fitting environment
Firm success due to	Fitness to industry demands	Manipulation of industry demands
Ability to shape industry	Low, slow	High, fast
Normative implication	Play by the rules (adapt)	Change the rules (innovate)
Development path	Convergence to dominant design	Divergence, create new design
Firm profitability	Largely industry-dependent	Largely firm-dependent

TABLE 9.2
Statements representing the opposite perspectives

Industry Dynamics Perspective		**Industry Leadership Perspective**	
13.1	Individual firms cannot shape industry developments.	14.1	Developments in an industry can be strongly shaped by individual firms.
13.2	In a mature industry, it is very difficult to find a successful strategy that is radically different.	14.2	In a highly competitive industry, some individual firms can still make exceptional profits.
13.3	Wanting to be radically innovative can be costly and dangerous; a bit of conservatism can be a good thing.	14.3	A firm can be highly profitable in any industry, as long as the firm has a good strategy.
13.4	Long run success depends on a firm's ability to follow the developments in its industry.	14.4	For a firm, long run success depends on its ability to lead the developments in its industry.
13.5	Firms should adapt to the demands placed on them by their surroundings.	14.5	Firms should shape their surroundings to fit with their objectives.
13.6	Firms should shift their resources out of mature industries.	14.6	Firms should reject the notion that an industry is mature.
13.7	Constantly striving to revolutionize the industry will lead to above average profitability.	14.7	Constantly striving to revolutionize the industry is likely to lead to bankruptcy in the long run.
13.8	Managers should not think they know better than the rest of the industry.	14.8	Managers should not accept the current industry opinion as the truth.

13.9	Firms should let others be the pioneers and only embrace business innovations once they seem likely to become successful.	14.9	Firms should strive to be the initiators of radical innovations in their industry.
13.10	Adapting to market changes is wiser than trying to shape the market yourself.	14.10	Above average profitability is attained by firms that don't adapt to the market, but actively shape the market.
13.11	Generally it is better to be a second-mover in an industry than the innovative first-mover.	14.11	Innovative first-movers are generally more profitable than firms that are second-movers.
13.12	The room to be very innovative in a mature industry is severely limited.	14.12	The room to be very innovative in a mature industry is enormous.

Chapter 10

THE ORGANIZATIONAL CONTEXT

10.1 INTRODUCTION

In organizations, just as in families, each new generation does not start from scratch, but inherits properties belonging to their predecessors. In families, a part of this inheritance is in the form of genetic properties, but other attributes are also passed down such as family traditions, myths, habits, connections, feuds, titles, and possessions. People might think of themselves as unique individuals, but to some degree they are an extension of the family line, and their behavior is influenced by this inheritance. In firms the same phenomenon is observable. New top executives may arrive on the scene, but they inherit a great deal from the previous generation. They inherit traditions and myths in the form of an organizational culture. Habits are passed along in the form of established organizational processes, while internal and external relationships and rivalries shape the political constellation in which new executives must function. They are also bequeathed the family jewels – brands, competences and other key resources.

In chapter 5 it was pointed out that such inheritance is often the source of organizational rigidity and inertia (e.g. Hannan & Freeman, 1977; Rumelt, 1995). Inheritance limits *organizational plasticity* – the capacity of the organization to *change shape*. As such, organizational inheritance can partially predetermine a firm's future path of development – which is referred to as *path dependency*, or sometimes simply summed up as 'history matters' (e.g. Aldrich, 1999; Nelson and Winter, 1982). Therefore, it was concluded that for strategic renewal to take place, some inherited characteristics could be preserved, but others needed to be changed, either by evolutionary or revolutionary means.

What was not discussed in chapter 5 was *who* should trigger the required strategic changes. Who should initiate adaptations to the firm's business system and who should take steps to reshape the organizational system? Typically, executives will have some role to play in all developments in the organizational context, but the question is what role. It is unlikely that any executive will have complete influence over all organizational developments, or would even want to exert absolute control. Inheritance and other organizational factors limit *organizational malleability* – the capacity of the organization to *be shaped by someone*. As such, executives need to determine what power they do have and where this power should be applied to achieve the best results. At the same time, executives will generally also look for opportunities to tap into the capabilities of other people in the firm to contribute to ongoing organizational adaptation.

So, the question can be summarized as 'what is the role of executives in achieving a new alignment with the environment and what input can be garnered from other

organizational members?'. This question is also referred to as the issue of *organizational development* and will be the central topic of further discussion in this chapter.

10.2 THE ISSUE OF ORGANIZATIONAL DEVELOPMENT

When it comes to realizing organizational development, executives generally acknowledge that they have some type of leadership role to play. *Leadership* refers to the act of influencing the views and behaviors of organizational members with the intention of accomplishing a particular organizational aim (e.g. Selznick, 1957; Bass, 1990). Stated differently, leadership is the act of getting organizational members to follow. From this definition it can be concluded that not all executives are necessarily leaders, and not all leaders are necessarily executives. *Executives*, or *managers,* are individuals with a formal position in the organizational hierarchy, with associated authority and responsibilities. *Leaders* are individuals who have the ability to sway other people in the organization to get something done.

To be able to lead organizational developments, executives need power. Power is the capability to influence. They also need to know how to get power, and how and where to exert it. In the following sections, these three topics will be examined in more detailed. First, the *sources of leadership influence* will be described, followed by the *levers of leadership influence*. Finally, the *arenas of leadership influence* will be explored.

10.2.1 Sources of Leadership Influence

To lead means to use *power* to influence others. Leaders can derive their potential influence from two general sources – their position and their person (Etzioni, 1961). *Position power* comes from a leader's formal function in the organization. *Personal power* is rooted in the specific character, knowledge, skills, and relationships of the leader. Executives always have some level of position power, but they do not necessarily have the personal power needed to get organizational members to follow them. These two main types of power can be further subdivided into the following categories (French and Raven, 1959):

- *Legitimate power*. Legitimate power exists when a person has the formal authority to determine certain organizational behaviors and other employees agree to comply with this situation. Examples of legitimate power are the authority to assign work, spend money and demand information.
- *Coercive power*. People have coercive power when they have the capability to punish or withhold rewards to achieve compliance. Examples of coercive power include giving a poor performance review, withholding a bonus and dismissing employees.
- *Reward power.* Reward power is derived from the ability to offer something of value to a person in return for compliance. Examples of reward power include giving praise, awarding wage raises, and promoting employees.
- *Expert power.* Expert power exists when organizational members are willing to comply because of a person's superior knowledge or skills in an important area. Such expert power can be based on specific knowledge of functional areas (e.g. marketing, finance), technologies (e.g. pharmaceuticals, information technology), geographic areas (e.g. Southeast Asia, Florida) and/or businesses (e.g. mining, automotive).

- *Referent power*. When organizational members let themselves be influenced by a person's charismatic appeal, this is called referent power. This personal attraction can be based on many attributes, such as likeableness, forcefulness, persuasiveness, visionary qualities and image of success.

The first three types of power are largely determined by the organizational position of leaders and their willingness to exert them – coercive and reward capabilities without the credibility of use are not a viable source of power. The last two sources of power, expert and referent power, are largely personal in nature, and also more subjective. Whether someone is seen as an expert and therefore accorded a certain level of respect and influence depends strongly on the perceptions of the people being lead. Expert power can be made more tangible by wearing a white lab coat, putting three pens in your breast pocket or writing a book, but still perceived expertise will be in the eyes of the beholder. The same is true for referent power, as people do not find the same characteristics equally charismatic. What is forceful to one follower might seem pushy to someone else; what is visionary to one person might sound like the murmurings of a madman to others (e.g. Klein and House, 1998; Waldman and Yammarino, 1999).

In practice, leaders will employ a mix of all five types of power to achieve the influence they desire. However, leadership styles can differ greatly depending on the relative weight placed on the various sources of power within the mix.

10.2.2 Levers of Leadership Influence

The sources of power available to the leader need to be used to have influence. There are three generic ways for leaders to seek influence, each focused on a different point in the activities of the people being influenced. These levers of leadership influence are:

- *Throughput control*. Leaders can focus their attention directly at the actions being taken by others in the organization. Throughput control implies getting involved hands-on in the activities of others, either by suggesting ways of working, engaging in a discussion on how things should be done, leading by example or simply by telling others what to do. This form of direct influence does require sufficiently detailed knowledge about the activities of others to be able to point out what should be done.
- *Output control*. Instead of directly supervising how things should be done, leaders can set objectives that should be met. Output control implies reaching agreement on certain performance targets and then monitoring how well they are being lived up to. The targets can be quantitative or qualitative, financial or strategic, simple or complex, realistic or stretch-oriented. And they can be arrived at by mutual consent or imposed by the leader. The very act of setting objectives can have an important influence on people in the organization, but the ability to check ongoing performance and to link results with punishment and rewards can further improve a person's impact.
- *Input control*. Leaders can also chose to influence the general conditions under which activities are carried out. Input control implies shaping the circumstances preceding and surrounding the actual work. Before activities start a leader can influence who is assigned to a task, which teams are formed, who is hired, where they will work and in what type of environment. During the execution of activities the leader can supply physical and financial resources, mobilize relationships and provide support. Not unimportantly, the leader can also be a source of enthusiasm, inspiration, ambition, vision and mission.

Of these three, throughput control is the most direct in its impact and input control the least. However, throughput control offers the lowest leverage and input control the highest, allowing a leader to influence many people over a longer period of time, while leaving more room for organizational members to take on their own responsibilities as well. In practice, leaders can combine elements of all three of the above, although leadership styles differ greatly with regard to the specific mix.

10.2.3 Arenas of Leadership Influence

As leaders attempt to guide organizational development, there are three main organizational arenas where they need to direct their influence to achieve strategic changes. These three overlapping arenas are the parts in the organization most resistant to change – they are the subsystems of the firm where organizational inheritance creates its own *momentum*, resisting a shift into another direction (e.g. Miller and Friesen, 1980; Tushman, Newman and Romanelli, 1986):

- *The political arena*. While most top executives have considerable position power with which they can try to influence the strategic decision-making process within their organization, very few top executives can impose their strategic agenda on the organization without building widespread political support. Even the most autocratic CEO will need to gain the commitment and compliance of key figures within the organization to be able to successfully push through significant changes. In practice, however, there are not many organizations where the 'officers and the troops' unquestioningly follow the general into battle. Generally, power is more dispersed throughout organizations, with different people and units having different ideas and interests, as well as the assertiveness to pursue their own agenda. Ironically, the more leaders that are developed throughout the organization, the more complex it becomes for any one leader to get the entire organization to follow – broad leadership can easily become fragmented leadership, with a host of strong people all pointing in different directions. For top management to gain control of the organization they must therefore build coalitions of supporters, not only to get favorable strategic decisions made, but also to ensure acceptance and compliance during the period of implementation. Otherwise strategic plans will be half-heartedly executed, opposed or silently sabotaged. However, gaining the necessary political support in the organization can be very difficult if the strategic views and interests of powerful individuals and departments differ significantly. Cultural and personality clashes can add to the complexity. Yet, top executives cannot recoil from the political arena, for it is here that new strategic directions are set (e.g. Allison, 1969; Pfeffer, 1992).
- *The cultural arena*. Intertwined with the process of gaining political influence in the organization, there is the process of gaining cultural influence. After all, to be able to change the organization, a leader must be able to change people's beliefs and associated behavioral patterns. Yet, affecting cultural change is far from simple. A leader must be capable of questioning the shared values, ideas and habits prevalent in the organization, even though the leader has usually been immersed in the very same culture for years. Leaders must also offer an alternative worldview and set of behaviors to supersede the old. All of this requires exceptional skills as *visionary* – to develop a new image of a desired future state for the firm – and as *missionary* – to develop a new set of beliefs and values to guide the firm. Furthermore, the leader needs to be an excellent *teacher* to engage the organizational members in a learning process to adapt their beliefs, values and norms to the new circumstances. In practice, this means that leaders often have to 'sell'

their view of the new culture, using a mix of rational persuasion, inspirational appeal, symbolic actions, motivational incentives and subtle pressure (e.g. Senge, 1990; Ireland and Hitt, 1999).

- *The psychological arena*. While leaders need to influence the political process and the cultural identity of the organization, attention also needs to be paid to the psychological needs of individuals. To affect organizational change, leaders must win both the hearts and minds of the members of the organization. People must be willing to, literally, 'follow the leader' – preferably not passively, but actively, with commitment, courage and even passion (e.g. Bennis and Nanus, 1985; Kelley, 1988). To achieve such 'followership', leaders must gain the respect and trust of their colleagues. Another important factor in winning people over is the ability to meet their emotional need for certainty, clarity and continuity, to offset the uncertainties, ambiguities and discontinuities surrounding them (e.g. Argyris, 1990; Pfeffer and Sutton, 1999).

Even where political, cultural and psychological processes make the organization difficult to lead, executives might still be able to gain a certain level of *control* over their organizations. Yet, there will always remain aspects of the organizational system that executives cannot control, and should not even want to control, which will be discussed in the following section.

10.3 THE TENSION BETWEEN CONTROL AND CHAOS

In general, executives like to be in control. Executives like to be able to shape their own future, and by extension, to shape the future of their firm. Executives do not shy away from power – they build their power base to be able to influence events and steer the development of their organization. In short, to be an executive is to have the desire to be in charge.

Yet, at the same time, most executives understand that their firms do not resemble machines, where one person can sit at the control panel and steer the entire system. Organizations are complex social systems, populated by numerous self-thinking human beings, each with their own feelings, ideas and interests. These people need to decide and act for themselves on a daily basis, without the direct intervention of the executive. They must be empowered to weigh situations, take initiatives, solve problems and grab opportunities. They must be given a certain measure of autonomy to experiment, do things differently and even constructively disagree with the executive. In other words, executives must also be willing to 'let go' of some control for the organization to function at its best.

Moreover, executives must accept that in a complex system, like an organization, trying to control everything would be a futile endeavor. With so many people and so many interactions going on in a firm, any attempt to run the entire system top-down would be an impossible task. Therefore, letting go of some control is a pure necessity for normal organizational functioning.

This duality of wanting to control the development of the organization, while understanding that letting go of control is often beneficial, is the key strategic tension when dealing with the organizational context. On the one hand, executives must be willing to act as benevolent 'philosopher kings', autocratically imposing what they see as best on the company. On the other hand, executives must be willing to act as constitutional monarchs, democratically empowering organizational citizens to take their own responsibilities and behave more as entrepreneurs. The strategic tension arises from the fact that the need for top-down *imposition* and bottom-up *initiative* are conflicting demands that are difficult for executives to meet at the same time.

At the one side of this strategy tension is 'control'. *Control* can be defined as the power to direct and impose order. At the other side of the tension is the need for 'chaos'. *Chaos* can be defined as disorder or the lack of fixed organization.

The tension between control and chaos is a recurrent theme in the literature on strategy, organization, leadership and governance. In most writings the need for control is presented as a pressure for a directive leadership style and/or an autocratic governance system (e.g. Tannenbaum and Schmidt, 1958; Vroom and Jago, 1988). The need for chaos is presented as a pressure for a participative leadership style and/or a democratic governance system (e.g. Ackoff, 1980; Stacey, 1992). In the following section both control and chaos will be further examined.

10.3.1 The Demand for Top Management Control

A famous remark by the Greek historian Herodotus is that "o*f all men's miseries the bitterest is this; to know so much and to have control over nothing*". How true indeed. Not only would it be a misery for the frustrated executives, who would be little more than mere administrators or caretakers. It would also be a misery for their organizations, which would need to constantly adjust course without a helmsman to guide the ship. Executives cannot afford to let their organizations drift on the existing momentum. It is an executive's task and responsibility to ensure that the organization changes in accordance to the environment, so that the organizational purpose can still be achieved.

Top management cannot realize this objective without some level of control. They need to be able to direct developments in the organization. They need to have the power to make the necessary changes in the organizational structure, processes and culture, to realign the organization with the demands of the environment. This power, whether positional or personal, needs to be applied towards gaining sufficient support in the political arena, challenging existing beliefs and behaviors in the cultural arena, and winning the hearts and minds of the organizational members in the psychological arena.

The control that top management needs is different from the day-to-day control built in to the organizational structure and processes – they need *strategic control* as opposed to *operational control*. While operational control gives executives influence over activities within the current organizational system, strategic control gives executives influence over changes to the organizational system itself (e.g. Goold and Quinn, 1990; Simons, 1994). It is this power that executives require to be able to steer the development of their organization.

10.3.2 The Demand for Organizational Chaos

To executives the term 'chaos' sounds quite menacing – it carries connotations of rampant anarchy, total pandemonium and a hopeless mess. Yet, chaos only means disorder, coming from the Greek term for the unformed original state of the universe. In the organizational context chaos refers to situations of disorder, where phenomena have not yet been organized, or where parts of an organizational system have become 'unfreezed'. In other words, something is chaotic if it is unformed or has become 'disorganized'.

While this still does not sound particularly appealing to most executives, it should, because a period of disorganization is often a prerequisite for strategic renewal. Unfreezing existing structures, processes, routines and beliefs, and opening people up to different possibilities might be inefficient in the short run, as well as making people feel uncomfortable, but it is usually necessary to provoke creativity and to invent new ways of seeing and doing things. By allowing experimentation, skunk works, pilot projects and out-

of-the-ordinary initiatives, executives accept a certain amount of disorder in the organization, which they hope will pay off in terms of organizational innovations.

But the most appealing effect of chaos is that it encourages *self-organization*. To illustrate this phenomenon, one should first think back to the old Soviet 'command economy', which was based on the principle of control. It was believed that a rational, centrally planned economic system, with strong top-down leadership, would be the most efficient and effective way to organize industrial development. In the West, on the other hand, the 'market economy' was chaotic – no one was in control and could impose order. Everyone could go ahead and start a company. They could set their own production levels and even set their own prices! As entrepreneurs made use of the freedom offered to them, the economy 'self-organized' bottom-up. Instead of the 'visible hand' of the central planner controlling and regulating the economy, it was the 'invisible hand' of the market that has created relative order out of chaos.

As the market economy example illustrates, chaos does not necessarily lead to pandemonium, but can result in a self-regulating interplay of forces. A lack of top-down control frees the way for a rich diversity of bottom-up ventures. Executives who also want to release the energy, creativity and entrepreneurial potential pent up in their organizations must therefore be willing to let go and allow some chaos to exist. In this context, the role of top management is comparable to that of governments in market economies – creating suitable conditions, encouraging activities and enforcing basic rules.

10.4 PERSPECTIVES ON THE ORGANIZATIONAL CONTEXT

While the pressures for both control and chaos are clear, this does leave executives with the challenging question of how they must reconcile two opposite, and at least partially incompatible, demands. Gaining a considerable level of top management control over the development of the organization will to some extent be at odds with a policy of accepting, or even encouraging, organizational chaos. To control or not to control, that is the question.

And yet again executives should not hope to find widespread consensus in the strategic management literature on what the optimal answer is for dealing with these two conflicting pressures. For among strategy academics and business practitioners alike, opinions differ strongly with regard to the best balance between control and chaos. Although many writers do indicate that there may be different styles in dealing with the tension and that these different styles might be more effective under different circumstances (e.g. Strebel, 1994; Vroom and Jago, 1988), most authors still exhibit a strong preference for a particular approach – which is duly called the 'modern' or 'new' style, or better yet, '21st century practices' (Ireland and Hitt, 1999).

Following the dialectical method used in previous chapters, here the two diametrically opposed positions will be identified and discussed. On the one hand, there are those who argue that top executives should lead from the front. Top executives should dare to take on the responsibility of imposing a new strategic agenda on the organization and should be at the forefront in breaking away from organizational inheritance where necessary. This point of view, with its strong emphasis on control and leading top-down, will be referred to as the *organizational leadership perspective*. This view is also known as the *strategic leadership perspective* (e.g. Cannella and Monroe, 1997; Rowe, 2001), but to avoid confusion with the industry leadership perspective discussed in chapter 9, here the prefix 'organizational' is preferred. On the other hand, there are people who believe that executives rarely have the ability to shape their organizations at will, but rather that organizations develop according to their own dynamics. These strategists argue that in most organizations no one is really in

control and that executives should not focus their energy on attempting to imposed developments top-down, but rather focus on facilitating processes of self-organization. This point of view, with its strong emphasis on chaos and facilitating bottom-up processes, will be referred to as the *organizational dynamics perspective*.

10.4.1 The Organizational Leadership Perspective

To proponents of the organizational leadership perspective, top management can – and should – take charge of the organization. In their view, organizational inertia and a growing misfit between the organization and its environment are not an inevitable state of affairs, but result from a failure of leadership. Bureaucracy, organizational fiefdoms, hostile relationships, inflexible corporate cultures, rigid competences, and resistance to change – all of these organizational diseases exist, but they are not unavoidable facts of organizational life. 'Healthy' organizations guard against falling prey to such degenerative illnesses, and when symptoms do arise, it is a task of the leader to address them. If organizations do go 'out of control', it is because weak leadership has failed to deal with a creeping ailment. The fact that there are many sick, poorly controllable, companies does not mean that sickness should be accepted as the natural condition.

At the basis of the organizational leadership perspective lies the belief that if people in organizations are left to 'sort things out' by themselves, this will inevitable degenerate into a situation of strategic drift (see chapter 4). Without somebody to quell political infighting, set a clear strategic direction, force through tough decisions, and supervise disciplined implementation, the organization will get bogged down in protracted internal bickering. Without somebody to champion a new vision, rally the troops and lead from the front, the organization will never get its heavy mass in motion. Without somebody who radiates confidence and cajoles people into action, the organization will not be able to overcome its risk-averseness and conservatism. In short, leaders are needed to counteract the inherent inertia characteristic of human organization.

As organizational order and direction do not happen spontaneously, the 'visible hand' of management is indispensable for the proper functioning of the organization (e.g. Child, 1972; Cyert, 1990). And this hand must be firm. Executives cannot afford to take a *laissez faire* attitude towards their task as leader – to lead means to get the organizational members to follow, and this is usually plain hard work (e.g. Bennis and Nanus, 1985; Kelley, 1988). To convince people in the organization to let themselves be led, executives cannot simply fall back on their position power. To be able to steer organizational developments executives need considerable personal power. To be successful, executives must be trusted, admired and respected. The forcefulness of their personality and the persuasiveness of their vision must be capable of capturing people's attention and commitment. And as leaders, executives must also be politically agile, to build coalitions where necessary to get their way.

Of course, not all executives have the qualities needed to be effective leaders – either by nature or nurture. Some theorists emphasize the importance of 'nature', arguing that executives require specific personality traits to be successful leaders (e.g. House and Aditya, 1997; Tucker, 1968). Yet, other theorists place more emphasis on 'nurture', arguing that most effective leadership behavior can be learned if enough effort is exerted (e.g. Kotter, 1990; Nanus, 1992). Either way, the importance of having good leadership makes finding and developing new leaders one of the highest priorities of the existing top management team.

To proponents of the organizational leadership perspective, being a leader does not mean engaging in simple top-down, command-and-control management. There are circumstances where the CEO or the top management team design strategies in isolation and then impose them on the rest of the organization. This type of direct control is sometimes

necessary to push through reorganizations or to make major acquisitions. In other circumstances, however, the top executives can control organizational behavior more indirectly. Proposals can be allowed to emerge bottom-up, as long as top management retains its power to approve or terminate projects as soon as they become serious plans (e.g. Bourgeois and Brodwin, 1984; Quinn, 1980). Some authors suggest that top management might even delegate some decision-making powers to lower level executives, but still control outcomes by setting clear goals, developing a conducive incentive system and fostering a particular culture (e.g. Senge, 1990; Tichy and Cohen, 1997).

What leaders should not do, however, is to relinquish control over the direction of the organization. The strategies do not have to be their own ideas, nor do they have to carry out everything themselves. But they should take upon themselves the responsibility for leading the organization in a certain direction and achieving results. If leaders let go of the helm, organizations will be set adrift, and will be carried by the prevailing winds and currents in directions unknown. Someone has to be in control of the organization, otherwise its behavior will be erratic. Leadership is needed to ensure that the best strategy is followed.

In conclusion, the organizational leadership perspective holds that the upper echelons of management can, and should, control the strategy process and by extension the strategy content. The CEO, or the top management team (e.g. Finkelstein and Hambrick, 1996; Hambrick and Mason, 1984), should have a grip on the organization's process of strategy formation and should be able to impose their will on the organization. Leaders should strive to overcome organizational inertia and adapt the organization to the strategic direction they intend. This type of controlled strategic behavior is what Chandler (1962) had in mind when he coined the aphorism *structure follows strategy* – the organizational structure should be adapted to the strategy intended by the decision-maker. In the organizational leadership perspective it would be more fitting to expand Chandler's maxim to *organization follows strategy* – all aspects of the company should be matched to the strategist's intentions.

10.4.2 The Organizational Dynamics Perspective

To proponents of the organizational dynamics perspective, such a heroic depiction of leadership is understandable, but usually more myth than reality. There might be a few great, wise, charismatic executives that rise to the apex of organizations, but unfortunately, all other organizations have to settle for regular mortals. Strong leaders are an exception, not the norm, and even their ability to mold the organization at will is highly exaggerated – good stories for best-selling (auto)biographies, but legend nevertheless (e.g. Chen and Meindl, 1991; Kets de Vries, 1994). Yet, the belief in the power of leadership is quite popular, among executives and the managed alike (e.g. Meindl, Ehrlich and Dukerich, 1985; Pfeffer, 1977). Executives like the idea that as leaders of an organization or organizational unit, they can make a difference. To most, 'being in control' is what management is all about. They have a penchant for attributing organizational results to their own efforts (e.g. Calder, 1977; Sims and Lorenzi, 1992). As for 'the managed', they too often ascribe organizational success or failure to the figurehead leader, whatever that person's real influence has been – after all, they too like the idea that somebody is in control. In fact, both parties are subscribing to a seductively simple *great person model* of how organizations work. The implicit assumption is that an individual leader, by the strength of personality, can steer large groups of people, as a present-day Alexander the Great.

However seductive, this view of organizational functioning is rarely a satisfactory model. A top executive does not resemble a commander leading the troops into battle, but rather a diplomat trying to negotiate a peace. The top executive is not like a jockey riding a thoroughbred horse, but more like a cowboy herding mules. Organizations are complex social

systems, made up of many 'stubborn individuals' with their own ideas, interests, and agendas (e.g. Greenwood and Hinings, 1996; Stacey, 1993). Strategy formation is therefore an inherently political process that leaders can only influence depending on their power base. The more dispersed the political power, the more difficult it is for a leader to control the organization's behavior. Even if leaders are granted, or acquire, significant political power to push through their favored measures, there may still be considerable resistance and guerilla activities. Political processes within organizations do not signify the derailment of strategic decision-making – politics is the normal state of affairs and few leaders have real control over these political dynamics.

Besides such political limitations, a top executive's ability to control the direction of a company is also severely constrained by the organization's culture. Social norms will have evolved, relationships will have been formed, aspirations will have taken root and cognitive maps will have been shaped. A leader cannot ignore the cultural legacy of the organization's history, as this will be deeply etched into the minds of the organization's members. Any top executive attempting to radically alter the direction of a company will find out that changing the underlying values, perceptions, beliefs and expectations is extremely difficult, if not next to impossible. As Weick (1979) puts it, an organization does not have a culture, it is a culture – shared values and norms are what make an organization. And just as it is difficult to change someone's identity, it is difficult to change an organization's culture (e.g. Schein, 1993; Smircich and Stubbart, 1985). Moreover, as most top executives rise through the ranks to the upper echelons, they themselves are a product of the existing organizational culture. Changing your own culture is like pulling yourself up by your own bootstraps – a great trick, too bad that nobody can do it.

In chapters 6 and 7, a related argument was put forward, as part of the resource-based view of the firm. One of the basic assumptions of the resource-based view is that building up competences is an arduous task, requiring a relatively long period of time. Learning is a slow process under the best of circumstances, but even more difficult if learning one thing means unlearning something else. The stronger the existing cognitive maps (knowledge), routines (capabilities) and disposition (attitude), the more challenging it is to 'teach an old dog new tricks.' The leader's power to direct and speed up such processes, it was argued, is quite limited (e.g. Barney, 1991; Leonard-Barton, 1995).

Taken together, the political, cultural and learning dynamics leave top executives with relatively little direct power over the system they want to steer. Generally, they can react to this limited ability to control in one of two basic ways – they can squeeze tighter or let go. Many executives go the first route, desperately trying to acquire more power, to gain a tighter grip on the organization, in the vain attempt to become the heroic leader of popular legend. Such a move to accumulate more power commonly results in actions to assert control, including stricter reporting structures, more disciplined accountability, harsher punishment for non-conformists and a shakeout among executives. In this manner, control comes to mean restriction, subordination or even subjugation. Yet, such a step towards authoritarian management will still not bring executives very much further towards having a lasting impact on organizational development.

The alternative route is for executives to accept that they cannot, but also should not, try to tightly control the organization. As they cannot really control organizational dynamics, all heavy-handed control approaches will have little more result than making the organization an unpleasant and oppressive place to work. If executives emphasize control, all they will do is run the risk of killing the organization's ability to innovate and learn. Innovation and learning are very difficult to control, especially the business innovation and learning happening outside of R&D labs. Much of this innovation and learning is sparked by organizational members, out in the markets or on the work floor, by questioning the status

quo. New ideas often start 'in the margins' of the organization and grow due to the room granted to offbeat opinions. Fragile new initiatives often need to be championed by their owners lower down in the hierarchy and only survive if there is a tolerance for unintended 'misfits' in the organization's portfolio of activities. Only if employees have a certain measure of freedom and are willing to act as intrapreneurs, will learning and innovation be an integral part of the organization's functioning (e.g. Amabile, 1998; Quinn, 1985).

In other words, if executives move beyond their instinctive desire for control and recognize the creative and entrepreneurial potential of self-organization, they will not bemoan their lack of control. They will see that a certain level of organizational chaos can create the conditions for development (e.g. Levy, 1994; Stacey, 1993). According to the organizational dynamics perspective, the task for executives is to use their limited powers to facilitate self-organization (e.g. Beinhocker, 1999; Wheatley and Kellner-Rogers, 1996). Executives can encourage empowerment, stimulate learning and innovation, bring people together, take away bureaucratic hurdles – all very much like the approach by most governments in market economies, who try to establish conditions conducive to entrepreneurial behavior, instead of trying to control economic activity. Executives' most important task is to ensure that the 'invisible hand of self-organization' functions properly, and does not lead to 'out-of-hand disorganization'.

So, does the executive matter? Yes, but in a different sense than is usually assumed. The executive cannot shape the organization, it shapes itself. Organizational developments are the result of complex internal dynamics, which can be summarized as *strategy follows organization*, instead of the other way around. Executives can facilitate processes of self-organization and thus indirectly influence the direction of development, but at the same time executives are also shaped by the organization they are in.

TABLE 10.1
Organizational leadership versus organizational dynamics perspective

	Organizational Leadership	**Organizational Dynamics**
Emphasis on	Control over chaos	Chaos over control
Organization development	Controllable creation process	Uncontrollable evolutionary process
Development metaphor	The visible hand	The invisible hand
Development direction	Top-down, imposed organization	Bottom-up, self-organization
Decision-making	Authoritarian (rule of the few)	Democratic (rule of the many)
Change process	Leader shapes new behavior	New behavior emerges from interaction
Change determinants	Leader's vision and skill	Political, cultural and learning dynamics
Organizational malleability	High, fast	Low, slow
Development driver	Organization follows strategy	Strategy follows organization
Normative implication	Strategize, then organize	Strategizing and organizing intertwined

10.5 CONCLUSION

So, how do executives believe that organizational development should be encouraged? Do they believe that the top management of a firm can shape the organization to fit with their intended strategy or do they suppose that the organizational context largely determines the strategy that is actually followed? And do they assume that top management should strive to

have a tight grip on the organization, or is it their view that executives should leave plenty of room for self-organization?

The main differences between the organizational leadership perspective and the organizational dynamics perspective have been summarized in table 10.1. These two perspectives will form the poles of the organizational context dimension. In table 10.2 the two perspectives have been translated into two sets of 12 policy statements that will be used in the strategy profile instrument in chapter 14.

TABLE 10.2
Statements representing the opposite perspectives

Organizational Leadership Perspective		**Organizational Dynamics Perspective**	
15.1	Top management can fully control the outcome of organizational change processes.	16.1	Top management cannot control the outcome of organizational change processes.
15.2	The ability of top management to impose a new way of working is the key to successful organizational change.	16.2	Building a strong coalition of managers willing to support a new way of working is key to successful organizational change.
15.3	The culture of an organization can be shaped by top management.	16.3	The culture of an organization is largely beyond the control of top management.
15.4	Firms should have strong top-down leadership, with centralized power.	16.4	Bottom-up involvement in strategy development builds essential wide-spread support and commitment.
15.5	Strategy is the responsibility of top management.	16.5	Strategy is the responsibility of all organizational members.
15.6	Top management should formulate strategic initiatives, for lower level managers to implement.	16.6	Top management should create the conditions for strategic initiatives to emerge from lower levels in the organization.
15.7	Top managers should tell their subordinate managers which strategic actions need to be taken.	16.7	Top managers should encourage middle managers to participate in setting the strategic direction of the firm.
15.8	Firms can only be successful if they have a strongly directive leader.	16.8	Firms can be successful without a strong central leader.
15.9	Top management should come up with strategies and to get everyone to move in that direction.	16.9	Good leaders make themselves redundant, building organizations that can be successful even after the leader is gone.
15.10	Top-down strategy-making works best.	16.10	Bottom-up involvement in strategy formulation and implementation works best.
15.11	A new CEO can make all the difference between corporate success and failure.	16.11	Good leaders motivate middle managers to think strategically and to develop new strategic initiatives themselves.

15.12	When it comes to changing strategic direction, firms need the strong hand of a powerful leader.	16.12	Wise top managers leave considerable room for creative chaos in an organization.

Chapter 11

THE INTERNATIONAL CONTEXT

11.1 INTRODUCTION

As firms move out of their domestic market on to the international stage, they are faced with differing business arenas. The nations they expand to can vary with regard to consumer behavior, language, legal system, technological infrastructure, business culture, educational system, labor relations, political ideology, distribution structures and fiscal regime, to name just a few. At face value, the plurality of the international context can seem daunting. Yet, the question is how important the international differences are for firms operating across borders. Do firms need to adapt to the international diversity encountered, or can they find ways of overcoming the constraints imposed by distinct national systems, structures, and behaviors? This matter of understanding and dealing with *international variety* is one of the key topics for executives operating across borders.

A second question with regard to the international context is that of *international linkages* – to what extent do events in one country have an impact on what happens in other countries? When a number of nations are tightly linked to one another in a particular area, this is referred to as a case of *international integration*. If, on the other hand, there are very weak links between developments in one country and developments elsewhere, this is referred to as a situation of *international fragmentation*. The question for executives is how tightly linked nations around the world actually are. Countries might be quite different, yet developments in one nation might significantly influence developments elsewhere. For instance, if interest rates rise in the United States, central bankers in most other countries cannot ignore this. If the price of oil goes down on the spot market in Rotterdam, this will have a 'spill over effect' towards most other nations. And if a breakthrough chip technology is developed in Taiwan, this will send a shockwave through the computer industry around the world. If nations are highly integrated, the executive must view all countries as part of the same system – as squares on a chessboard, not to be judged in isolation.

When looking at the subjects of international variety and linkages, it is also important to know in which direction they have been moving, and will develop further, over time. Where a development towards lower international variety and tighter international linkages on a worldwide scale can be witnessed, a process of *globalization* is at play. Where a movement towards more international variety and a loosening of international linkages is apparent, a process of *localization* is taking place.

For executives operating in more than one nation, it is vital to understand the nature of the international context. Have their businesses been globalizing or localizing, and what can be expected in future? Answers to these questions guide strategizing executives in choosing

which countries to be active in and how to manage their activities across borders. Taken together, these international context questions constitute the issue of *international configuration*. What executives believe about managing the international configuration of firms will be the focus of the further discussion in this chapter.

11.2 THE ISSUE OF INTERNATIONAL CONFIGURATION

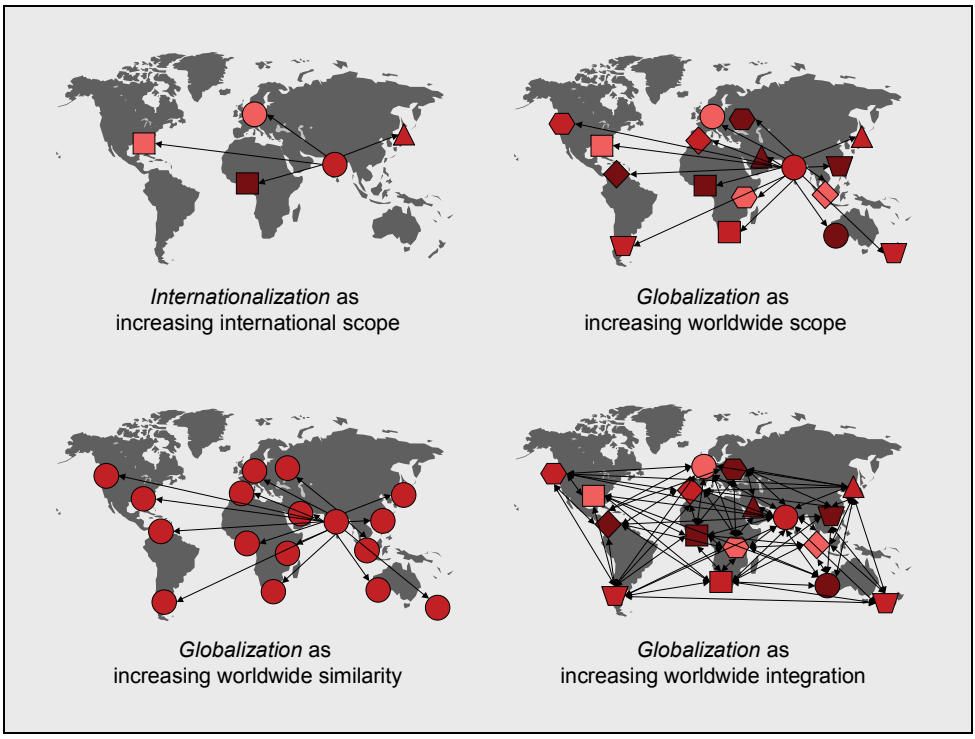
How a firm configures its activities across borders is largely dependent on how it deals with the fundamental tension between the opposite demands of globalization and localization. To understand these forces, pulling the organization in contrary directions, it is first necessary to further define them. Globalization and localization are terms used by many, but explained by few. This lack of uniform definition often leads to an unfocused debate, as different people employ the same terms, but actually refer to different phenomena. Therefore, this discussion will start with a clarification of the concepts of globalization and localization. Subsequently, attention will turn to the two central questions facing the international executive: Which countries should the firm be active in and how should this array of international activities be managed? This first question, of deciding on which geographic areas the organization should be involved in, is the issue of *international composition*. The second question, of deciding on the organizational structure and systems needed to run the multi-country activities, is the issue of *international management*.

11.2.1 Dimensions of Globalization

Clearly, globalization refers to the process of becoming more global. But what is global? Although there is no agreement on a single definition, most writers use the term to refer to one or more of the following elements (see figure 11.1):

- *Worldwide scope*. 'Global' can simply be used as a geographic term. A firm with operations around the world can be labeled a global company, to distinguish it from firms that are local (not international) or regional in scope. In such a case, the term 'global' is primarily intended to describe the *spatial* dimension – the broadest possible international scope is to be global. When this definition of global is employed, globalization is the process of international expansion on a worldwide scale (e.g. Patel and Pavitt, 1991).
- *Worldwide similarity*. 'Global' can also refer to homogeneity around the world. For instance, if a company decides to sell the same product in all of its international markets, it is often referred to as a global product, as opposed to a locally tailored product. In such a case, the term 'global' is primarily intended to describe the *variance* dimension – the ultimate level of worldwide similarity is to be global. When this definition of global is employed, globalization is the process of declining international variety (e.g. Levitt, 1983).
- *Worldwide integration*. 'Global' can also refer to the world as one tightly linked system. For instance, a global market can be said to exist if events in one country are significantly impacted by events in other geographic markets. This as opposed to local markets, where price levels, competition, demand and fashions are hardly influenced by developments in other nations. In such a case, the term 'global' is primarily intended to describe the *linkages* dimension – the ultimate level of worldwide integration is to be global. When this definition of global is employed, globalization is the process of increasing international interconnectedness (e.g. Porter, 1986).

FIGURE 11.1
Internationalization and globalization of the firm



So, is for example McDonald's a global company? That depends along which of the above three dimensions the company is measured. When judging the international scope of McDonald's, it can be seen that the company is globalizing, but far from global. The company operates in approximately half the countries in the world, but in many of these only in one or a few large cities. Of McDonald's worldwide revenues, more than half is still earned in the United States. This predominance of the home country is even stronger if the composition of the company's top management is looked at (Ruigrok and Van Tulder, 1995). However, when judging McDonald's along the dimension of international similarity, it is simple to observe that the company is relatively global, as it takes a highly standardized approach to most markets around the world. Although, it should be noted that on some aspects as menu and interior design there is leeway for local adaptation. Finally, when judging McDonald's along the dimension of international integration, the company is only slightly global, as it is not very tightly linked around the world. Some activities are centralized or coordinated, but in general there is relatively little need for concerted action.

As for localization, as the opposite process of globalization, it is characterized by decreasing international scope, similarity and integration. From the angle of international strategy the most extreme form of localness is when firms operate in one country and there is no similarity or integration between countries (e.g. the hairdressing and driving school businesses). However, this equates local with national, while firms and businesses can be even more local, all the way down to the state/province/department/district and municipal playing fields

11.2.2 Levels of Globalization

The second factor complicating a clear understanding of the concept of globalization is that it is applied to a variety of subjects, while the differences are often not made explicit. Some people discuss globalization as a development in the economy at large, while others debate globalization as something happening to industries, markets, products, technologies, fashions, production, competition and organizations. In general, debates on globalization tend to concentrate on one of three levels of analysis:

- *Globalization of companies*. Some authors focus on the *micro* level, debating whether individual companies are becoming more global. Issues are the extent to which firms have a global strategy, structure, culture, workforce, management team and resource base. In more detail, the globalization of specific products and value-adding activities is often discussed. Here it is of particular importance to acknowledge that the globalization of one product or activity (e.g. marketing) does not necessarily entail the globalization of all others (e.g. Prahalad and Doz, 1987; Bartlett and Ghoshal, 1987).
- *Globalization of businesses*. Other authors are more concerned with the *meso* level, debating whether particular businesses are becoming more global. Here it is important to distinguish those who emphasize the globalization of markets, as opposed to those accentuating the globalization of industries. The issue of globalizing markets has to do with the growing similarity of worldwide *customer demand* and the growing ease of worldwide product flows (e.g. Levitt, 1983; Douglas and Wind, 1987). For example, the crude oil and foreign currency markets are truly global – the same commodities are traded at the same rates around the world. The markets for accountancy and garbage collection services, on the other hand, are very local – demand differs significantly, there is little cross-border trade and consequently prices vary sharply. The globalization of industries is quite a different issue, as it has to do with the emergence of a set of *producers* that compete with one another on a worldwide scale (e.g. Prahalad and Doz, 1987; Porter, 1990). So, for instance, the automobile and consumer electronics industries are quite global – the major players in most countries belong to the same set of companies that compete against each other all around the world. Even the accountancy industry is relatively global, even though the markets for accountancy services are very local. On the other hand, the hairdressing and retail banking industries are very local – the competitive scene in each country is relatively uninfluenced by competitive developments elsewhere.
- *Globalization of economies*. Yet other authors take a *macro* level of analysis, arguing whether or not the world's economies in general are experiencing a convergence trend. Many authors are interested in the macroeconomic dynamics of international integration and its consequences in terms of growth, employment, inflation, productivity, trade and foreign direct investment (e.g. Kay, 1989; Krugman, 1990). Others focus more on the political realities constraining and encouraging globalization (e.g. Klein, 2000; McGrew et al., 1992). Yet others are interested in the underlying dynamics of technological, institutional and organizational convergence (e.g. Dunning, 1986; Kogut, 1993).

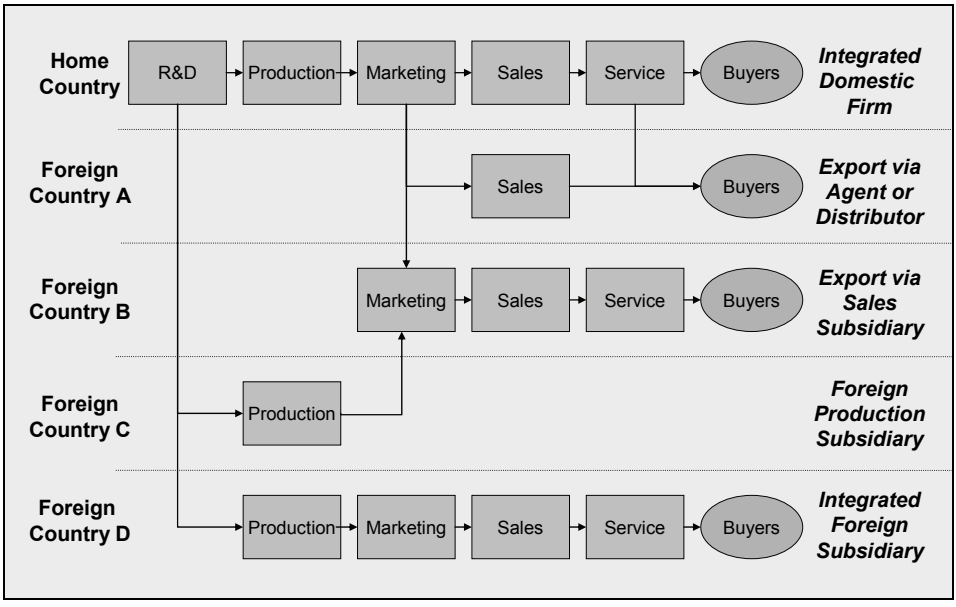
Ultimately, the question in this chapter is not only whether executives believe that economies, businesses and companies are actually globalizing, but also whether they believe that they can influence these developments. In other words, is global convergence or continued international diversity an uncontrollable evolutionary development to which firms (and governments) must comply, or can executives actively influence the globalization or localization of their environment?

11.2.3 International Composition

An international firm operates in two or more countries. When a firm starts up value adding activities in yet another country, this process is called *internationalization*. In figure 11.2 an overview is presented of the most common forms of internationalization. One of the earliest international growth moves undertaken by firms is to sell their products to foreign buyers, either directly (internet or telephone sales), through a traveling salesperson, or via a local agent or distributor. Such types of export activities are generally less taxing for the organization than the establishment of a *foreign sales subsidiary* (or sales unit). Serving a foreign market by means of a sales subsidiary often requires a higher level of investment in terms of marketing expenditures, sales force development and after-sales service provision. A firm can also set up a *foreign production subsidiary* (or 'off-shore' production unit), whose activities are focused on manufacturing goods to be exported back to the firm's other markets. Alternatively, a firm can begin an *integrated foreign subsidiary* that is responsible for a full range of value adding activities, including production and sales. In practice, there are many variations to these basic forms of internationalization, depending on the specific value adding activities carried out in different countries. For example, some subsidiaries have R&D, assembly and marketing their portfolio of activities, while others do not (Birkenshaw and Hood, 1998).

When establishing a foreign subsidiary the internationalizing firm must decide whether to purchase an existing local company (*entry by acquisition)* or to start from scratch (*greenfield entry*). In both cases the firm can work independently or by means of a *joint venture* with a local player or foreign partner. It is also possible to dispense with the establishment of a subsidiary at all, by networking with local manufacturers, assemblers, sales agents and distributors (as discussed in chapter 8).

FIGURE 11.2
International growth options



The issue of international composition deals with the question of where the firm wants to have a certain level of involvement. The firm's strategists must decide where to allocate resources, build up activities and try to achieve results. The issue of international composition can be further subdivided into two parts:

- *International scope*. The international composition of the firm depends first of all on the countries selected to do business in. The geographic spectrum covered by the firm is referred to as its international scope. The firm's strategists must decide how many countries they want to be active in, and which countries these should be.
- *International distribution*. The international composition of the firm also depends on how it has distributed its value adding activities across the countries selected. In some firms all national subsidiaries carry out similar activities and are of comparable size. However, in many firms activities are distributed less symmetrically, with, for example, production, R&D and marketing concentrated in only a few countries (Porter, 1986). Commonly some countries will also contribute much more revenue and profits than others, but these might not be the countries where new investments can best be made. It is the task of the firm's strategists to determine how activities can best be distributed and how resources can best be allocated across the various countries.

Just as a corporation's portfolio of businesses could be visualized by means of a portfolio grid, so too can a business's portfolio of foreign sales markets be displayed using such a matrix. In figure 11.3 a fictitious example is given of a firm's international sales portfolio using the GE business screen as analysis tool. Instead of industry attractiveness along the vertical axis, country attractiveness is used, calculating in such as market growth, competitive intensity, buyer power, customer loyalty, government regulation and operating costs. Following a similar logic, firms can also evaluate their international portfolios of, for instance, production locations and R&D facilities.

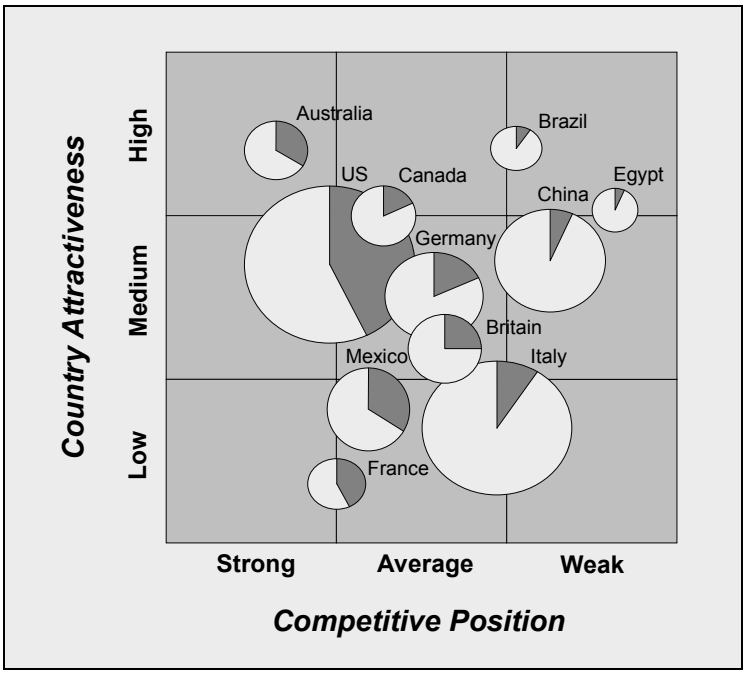
Deciding which portfolio of countries to be active in, both in terms of international scope and distribution, will largely depend on the strategic motives that have stimulated the firm to enter the international arena in the first place. After all, there must be some good reasons why a firm is willing to disregard the growth opportunities in its home market and to enter into uncertain foreign adventures. There must be some advantages to being international that offset the disadvantages of foreignness and distance. These advantages of having activities in two or more countries – cross-border synergies – will be discussed in more detail, after an account of the second international configuration question, the issue of international management.

11.2.4 International Management

A firm operating in two or more countries needs to find some way of organizing itself to deal with its border-spanning nature. As managing across borders is difficult and costly, the simplest solution would be to organize all operations on a country-by-country basis, and to leave all country units as autonomous as possible. Yet, internationalization is only economically rational if 'the international whole is more than the sum of the country parts' (see chapter 7). In other words, internationalization only makes sense if enough cross-border synergies can be reaped to offset the extra cost of foreignness and distance.

Therefore, the firm needs to have international integration mechanisms to facilitate the realization of cross-border synergies. The three most important integration mechanisms used in international management are:

FIGURE 11.3
Example of foreign sales market portfolio



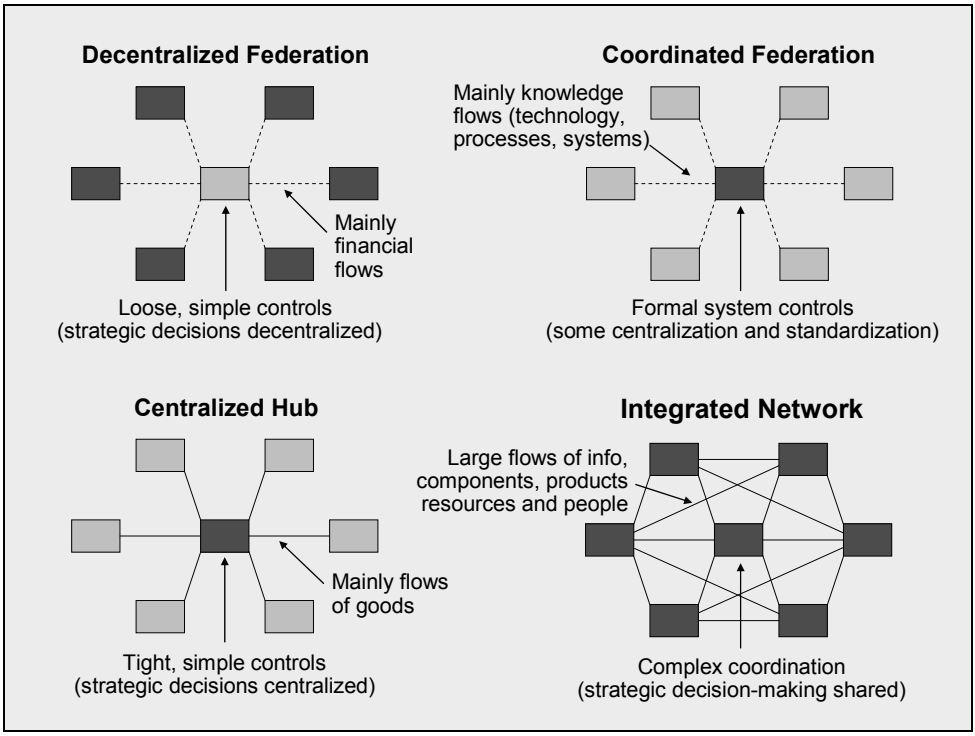
- *Standardization*. An easy way to reap cross-border synergies is to do the same thing in each country, without any costly adaptation. Such standardization can be applied to all aspects of the business model (see chapter 5) – the product offerings, value-adding activities and resources employed. Standardization is particularly important for achieving economies of scale (e.g. Hout, Porter and Rudden, 1982; Levitt, 1983), but can be equally valuable for serving border-crossing clients who want to encounter a predictable offering (e.g. Prahalad and Hamel, 1985; Yip, 1993).
- *Coordination*. Instead of standardizing products or activities, international firms can also align their varied activities in different countries by means of cross-border coordination. Getting the activities in the various countries aligned is often inspired by the need to serve border-crossing clients in a coordinated manner (e.g. global service level agreements), or to counter these clients policy of playing off the firm's subsidiaries against one another (e.g. cross-border price shopping). International coordination can be valuable when responding to, or attacking, competitors as well. A coordinated assault on a few markets, financed by the profits from many markets (i.e. *cross-subsidization*), can sometimes lead to competitive success (Prahalad and Doz, 1987).
- *Centralization*. Of course, activities within the firm can also be integrated at one central location, either in the firm's home country or elsewhere. Such centralization is often motivated by the drive for economies of scale (e.g. Buckley and Casson, 1985; Dunning, 1981), but might be due to the *competitive advantage* of a particular country as well. For example, production costs might be much lower, or quality much higher, in a certain part of the world, making it a logical location for centralized production. Centralization of knowledge intensive activities is sometimes also needed, to guard quality or to ensure

faster learning than could be attained with decentralized activities (e.g. Porter, 1990; Dunning, 1993).

It is up to the firm's strategists to determine the most appropriate level of standardization, coordination and centralization, needed to function efficiently and effectively in an international context. The level chosen for each of these three characteristics will largely determine the organizational model adopted by the international firm.

In their seminal research, Bartlett and Ghoshal (1989) distinguish four generic organizational models for international firms, each with its own mix of standardization, coordination and centralization (see figure 11.4):

FIGURE 11.4
Generic organizational models for international firms
(adapted from Bartlett and Ghoshal, 1995)



- *Decentralized federation*. In a decentralized federation, the firm is organized along geographic lines, with each full-scale country subsidiary largely self-sufficient and autonomous from international headquarters in the home country. Few activities are centralized and little is coordinated across borders. The level of standardization is also low, as the country unit is free to adapt itself to the specific circumstances in its national environment. Bartlett and Ghoshal refer to this organizational model as *multinational*. Another common label is *multi-domestic* (e.g. Prahalad and Doz, 1987; Stopford and Wells, 1972).

- *Coordinated federation*. In a coordinated federation, the firm is also organized along geographic lines, but the country subsidiaries have a closer relationship with the international headquarters in the home country. Most of the core competences, technologies, processes and products are developed centrally, while other activities are carried out locally. As a consequence, there is some standardization and coordination, requiring some formalized control systems (i.e. planning, budgeting, administration). Another name employed by Bartlett and Ghoshal to refer to this organizational model is *international*.
- *Centralized hub*. In a centralized hub, national units are relatively unimportant, as all main activities are carried out in the home country. Generally a highly standardized approach is used towards all foreign markets. As centralization and standardization are high, foreign subsidiaries are limited to implementing headquarters' policies in the local markets. Coordination of activities across countries is made easy by the dominance of headquarters. Bartlett and Ghoshal use the term *global* to describe this organizational model.
- *Integrated network*. In an integrated network, the country subsidiaries have a close relationship with international headquarters, just as in the coordinated federation, but also have a close relationship with each other. Very little is centralized at the international headquarters in the home country, but each national unit can become the worldwide center for a particular competence, technology, process or product. Thus subsidiaries need to coordinate the flow of components, products, knowledge and people between each other. Such a networked organization requires a certain level of standardization to function effectively. Another name used by Bartlett and Ghoshal for this organizational model is *transnational*. Which international organizational model is adopted depends strongly on what the corporate strategist believes and wishes to achieve. The preferred international management structure will be largely determined by the type of cross-border synergies that the strategists envisage. This topic of multi-country synergies will be examined more closely in the following section.

11.3 THE TENSION BETWEEN GLOBALIZATION AND LOCALIZATION

It requires almost no argumentation that internationally operating companies are faced with a tension between treating the world as one market and acknowledging national differences. During the last few decades, achieving a balance between international uniformity and meeting local demands has been the dominant theme in the literature on international management. All researchers have recognized the tension between international standardization and local adaptation. The key question has been whether international firms have the *liberty* to standardize or face the *pressure* to adapt.

However, since the mid-1980s, this standardization-adaptation discussion has progressed significantly, as strategy researchers have moved beyond the organizational design question, seeking the underlying strategic motives for standardization and adaptation (e.g. Bartlett and Ghoshal, 1987; Porter, 1986; Prahalad and Doz, 1987). It has been acknowledged that international standardization is not a matter of organizational convenience that companies naturally revert to when the market does not demand local adaptation. Rather, international standardization is a means for achieving *cross-border synergies*. A firm can achieve cross-border synergies by leveraging resources, integrating activities and aligning product offerings across two or more countries. Creating additional value in this way is the very *raison d'etre* of the international firm. If internationalizing companies would fully adapt

to local conditions, without leveraging a homegrown quality, they would have no advantage over local firms, while they would be burdened by the extra costs of international business (e.g. overcoming distance and foreignness). Therefore, international companies need to realize at least enough cross-border synergies to compensate for the additional expenses of operating in multiple countries.

Much of the theoretical discourse has focused on the question which cross-border synergies can be achieved on the ultimate, global, scale. Most researchers identify various potential opportunities for worldwide synergy, yet recognize the simultaneous demands to meet the specific conditions in each local market (e.g. Dicken, 1992; Yip, 1993). These possibilities for reaping *global synergy* will be examined first, followed by the countervailing pressures for *local responsiveness*.

11.3.1 The Demand for Global Synergy

Striving for cross-border synergies on as large a scale as possible can be an opportunity for an international firm to enhance its competitive advantage. However, realizing global synergies is often less an opportunity than a competitive demand. If rival firms have already successfully implemented a global strategy, there can be a severe pressure to also reap the benefits of globalization through standardization, coordination and/or centralization.

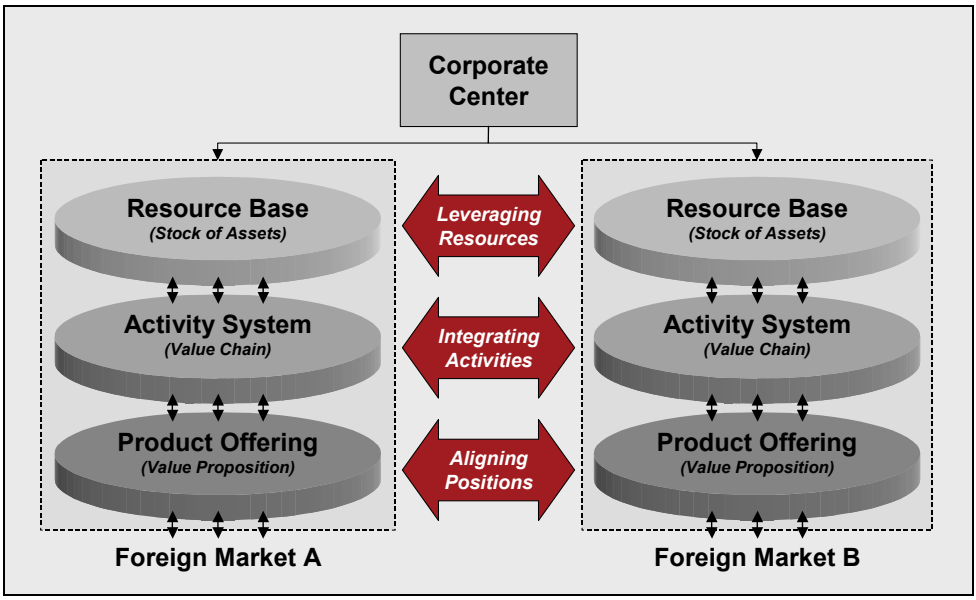
There are many different types of cross-border synergies. In accordance with the business model framework described in chapter 6, these synergies can be organized into three categories: aligning product offerings, integrating activities and leveraging resources (see figure 11.5).

Synergy by Aligning Positions

The first way to create cross-border synergies is to align market positions in the various countries in which the firm operates. Taking a coordinated approach to different national markets can be necessary under two circumstances, namely to offer a concerted cross-border product offering to customers and to stage a concerted cross-border attack on competitors:

- *Dealing with cross-border customers*. An international firm is ideally placed to offer border-crossing customers an internationally coordinated product and/or service offering. Whether it is for a tourist who wants to have the same hotel arrangements around the world, or for an advertiser who wants to stage a globally coordinated new product introduction, it can be important to have a standardized and coordinated offering across various nations. It might be equally necessary to counter the tactics of customers shopping around various national subsidiaries for the best deals, or to meet the customer's demand to aggregate all global buying via one central account.
- *Dealing with cross-border competition*. An international firm is also in an ideal position to successfully attack locally oriented rivals, if it does not spread its resources too thinly around the world, but rather focuses on only a few countries at a time. By coordinating its competitive efforts and bringing its global power to bear on a few national markets, an international firm can push back or even defeat local rivals country-by-country. Of course, an international company must have the capability of defending itself against such a globally coordinated attack by a rival international firm as well.

FIGURE 11.5
Forms of cross-border synergies



Synergy by Integrating Activities

Cross-border synergies can also be achieved by linking the activity systems of the firm in its various national markets. Integrating the value creation processes across borders can be useful to realize economies of scale and to make use of the specific competitive advantages of each nation:

- *Reaping scale advantages*. Instead of organizing the international firm's activity system on a country-by-country basis, certain activities can be pooled to reap economies of scale. Commonly this means that activities must be centralized at one or a few locations, and that a certain level of product and/or process standardization must be accepted. Economies of scale can be realized for many activities, most notably production, logistics, procurement and R&D. However, scale advantages might be possible for all activities of the firm. Although scale advantages are often pursued by means of centralization, it is often possible to achieve economies by standardizing and coordinating activities across borders (e.g. joint procurement, joint marketing campaigns).
- *Reaping location advantages*. For some activities certain locations are much more suited than others, making it attractive to centralize these activities in the countries that possess a particular competitive advantage. A national competitive advantage can consist of inexpensive or specialist local inputs, such as raw materials, energy, physical infrastructure, or human resources, but can also be due to the presence of attractive buyers and related industries (Porter, 1990).

Synergy by Leveraging Resources

A third manner in which cross-border synergies can be realized is by sharing resources across national markets. Such resource leveraging can be achieved by physically reallocating resources to other countries where they can be used more productively, or by replicating them so they can be used in many national markets simultaneously:

- *Achieving resource reallocation*. Instead of leaving resources in countries where they happen to be, international firms have the opportunity to transfer resources to other locations, where they can be used to more benefit. For example, money, machinery and people can be reallocated out of countries where the return on these resources is low, into countries where they can reap a higher return. Executives specializing in market development might be sent to new subsidiaries, while older machinery might be transferred to less advanced markets (Vernon, 1966; Buckley and Casson, 1976).
- *Achieving resource replication*. While leveraging tangible resources requires physical reallocation or sharing (see reaping scale advantages), intangible resources can be leveraged by means of replication. Intangibles such as knowledge and capabilities can be copied across borders and reused in another country. This allows international companies to leverage their know-how with regard to such aspects as technology, production, marketing, logistics and sales (Kogut and Zander, 1993; Liebeskind, 1996).

For all of these cross-border synergies it holds that the wider the geographic scope, the greater the potential benefit. Where possible, realizing these synergies on a global scale would result in the highest level of value creation.

These opportunities for global synergy represent a strong demand on all companies, both international and domestic. If a company can reap these synergies more quickly and successfully than its competitors, this could result in a strong offensive advantage. If other companies have a head start in capturing these global synergies, the firm must move quickly to catch up. Either way, there is a pressure on companies to seek out opportunities for global synergy and to turn them to their advantage.

11.3.2 The Demand for Local Responsiveness

Yet the pressure to pursue global synergies is only half the equation. Simultaneously, companies must remain attuned to the specific demands of each national market and retain the ability to respond to these particular characteristics in a timely and adequate manner. In other words, firms must have the capability to be responsive to local conditions. If they lose touch with the distinct competitive dynamics in each of their national markets, they might find themselves at a competitive disadvantage compared to more responsive rivals.

While business responsiveness is always important, it becomes all the more pressing when the differences between various national markets are large. The more dissimilar the national markets, the more pressure on the international firm to be attuned to these distinct characteristics. The most important differences between countries include:

- *Differences in market structure*. Countries can differ significantly with regard to their competitive landscape. For example, in some national markets there are strong local competitors, requiring the international firm to respond differently than in countries where it encounters its ‘regular’ international rivals. Another difference is that in some countries there are only a few market parties, while in other countries the market is highly fragmented among numerous competitors. There can also be large differences from

country to country in the background of competitors – in some countries conglomerates dominate the business scene, while in other countries single business competitors are more frequent.

- *Differences in customer needs*. Customers in each national market can have needs that are significantly different than the needs exhibited in other countries. The nature of these customer differences can vary from divergent cultural expectations and use circumstances, to incompatible technical systems and languages employed.
- *Differences in buying behavior*. Not only the customers' needs can differ across countries, but so can their buying behavior. For example, customers can be different with regard to the way they structure buying decisions, the types of information they consider, and the relationship they wish to have with their suppliers.
- *Differences in substitutes*. National markets can also differ with regard to the types of indirect competition that needs to be faced. In some countries, for instance, beer brewers have to deal with wine as an important rival product, while in other markets tea or soft drinks might be the most threatening substitutes.
- *Differences in distribution channels*. Countries can exhibit remarkable differences in the way their distribution channels work. For example, countries can vary with regard to the kinds of distribution channels available, the number of layers in the distribution structure, their level of sophistication, their degree of concentration and the negotiation power of each player.
- *Differences in media structure*. National markets can have very different media channels available for marketing communication purposes. In the area of television, for instance, countries vary widely with regard to the number of stations in the air (or on the cable), the types of regulation imposed, the amount of commercial time available, and its cost and effectiveness. In the same way, all other media channels may differ.
- *Differences in infrastructure*. Many products and services are heavily dependent on the type of infrastructure available in a country. For example, some products rely on a digital telephone system, high-speed motorways, 24-hour convenience stores, or a national health care system. Some services require an efficient postal service, poor public transport, electronic banking, or cable television.
- *Differences in supply structure*. If a company has local operations, the differences between countries with regard to their supply structures can also force the company to be more locally responsive. Not only the availability, quality and price of raw materials and components can vary widely between countries, but the same is true for other inputs such as labor, management, capital, facilities, machinery, research, information and services.
- *Differences in government regulations*. As most government regulations are made on a country-by-country basis, they can differ significantly. Government regulations can affect almost every aspect of a company's operations, as they range from antitrust and product liability legislation, to labor laws and taxation rules.

Responsiveness to these local differences is not only a matter of adaptation. Simple adaptation can be reactive and slow. Being responsive means that the firm has to have the ability to be proactive and fast. As each market develops in a different way and at a different pace, the international firm needs to be able to respond quickly and adequately to remain in tune.

It is clear that international executives cannot afford to neglect being responsive to local conditions. Yet, at the same time, they need to realize cross-border synergies to create

additional value. Unfortunately for executives, these two key demands placed on the international firm are, at least to some extent, in conflict with one another. Striving for cross-border synergies on a global scale will interfere with being locally responsive and vice versa. Therefore, the question is how these two conflicting demands can be reconciled – how can the international executive deal with the tension between globalization and localization?

11.4 PERSPECTIVES ON THE INTERNATIONAL CONTEXT

When doing business in an international context, it is generally accepted that the challenge for firms is to strive for cross-border synergies, while simultaneously being responsive to the local conditions. It is acknowledged that international executives need to weigh the specific characteristics of their business when reconciling the tension between globalization and localization – some businesses are currently more suited for a global approach than others. Where opinions start to diverge is on the question of which businesses will become more global, or can be made more global, in the near future. To some executives it is evident that countries are rapidly becoming increasingly similar and more closely interrelated. To them globalization is already far advanced and will continue into the future, wiping out the importance of nations as it progresses. Therefore, they argue that it is wise to anticipate, and even encourage, a 'nationless' world, by focusing on global synergies over local responsiveness. Other executives, however, are more skeptical about the speed and impact of globalization. In their view, much so-called globalization is quite superficial, while at a deeper level important international differences are not quickly changing and cross-border integration is moving very slowly. They also note that there are significant countercurrents creating more international variety, with the potential of loosening international linkages. Therefore, wise executives should remain highly responsive to the complex variety and fragmentation that characterizes our world, while only carefully seeking out selected cross-border synergy opportunities.

These differing opinions among international strategists are reflected in differing views in the strategic management literature. While there is a wide spectrum of positions on the question of how the international context will develop, here the two opposite poles in the debate will be identified and discussed. On the one side of the spectrum, there are the executives who believe that globalization is bringing Lennon's dream of the 'world living as one' closer and closer. This point of view is called the *global convergence* perspective. At the other end of the spectrum are the executives who believe that deep-rooted local differences will continue to force firms to 'do in Rome as the Romans do'. This point of view is referred to as the *international diversity* perspective.

11.4.1 The Global Convergence Perspective

According to proponents of the global convergence perspective, the growing similarity and integration of the world can be argued by pointing to extensive economic statistics, showing significant rises in foreign direct investment and international trade. Yet, it is simpler to observe things directly around you. For instance, are you wearing clothing unique to your country, or could you mingle in an international crowd without standing out? Is the television you watch, the vehicle you drive, the telephone you use and the timepiece you wear specific to your nation, or based on the same technology and even produced by the same companies as those in other countries? Is the music you listen to made by local bands, unknown outside your country, or is this music equally popular abroad? Is the food you eat unique to your

region, or is even this served in other countries? Now compare your answers to what your parents would have answered thirty years ago – the difference is due to global convergence.

Global convergence, it is argued, is largely driven by the ease, low cost and frequency of international communication, transport and travel. This has diminished the importance of distance. In the past world of large distances, interactions between countries were few and international differences could develop in relative isolation. But the victory of technology over distance has created a '*global village'*, in which goods, services and ideas are easily exchanged, new developments spread quickly and the 'best practices' of one nation are rapidly copied in others. Once individuals and organizations interact with one another as if no geographic distances exist, an unstoppable process towards cultural, political, technological and economic convergence is set in motion – countries will become more closely linked to one another and local differences will be superseded by new global norms.

Of course, in the short run there will still be international differences and nations will not be fully integrated into a 'world without borders'. Executives taking a global convergence perspective acknowledge that such fundamental and wide-ranging changes take time. There are numerous sources of inertia – e.g. vested interests, commitment to existing systems, emotional attachment to current habits, and fear of change. The same type of change inhibitors could be witnessed during the industrial revolution, as well. Yet, these change inhibitors can only slow the pace of global convergence, not reverse its direction – the momentum caused by the shrinking of distance can only be braked, but not stopped. Therefore, firms thinking further than the short term, should not let themselves be guided too much by current international diversity, but rather by the emerging global reality (Ohmae, 1990).

For individual firms, global convergence is changing the rules of the competitive game. While in the past most countries had their own distinct characteristics, pressuring firms to be locally responsive, now growing similarity offers enormous opportunities for leveraging resources and sharing activities across borders – e.g. production can be standardized to save costs, new product development can be done on an international scale to reduce the total investments required, and marketing knowledge can easily be exchanged to avoid reinventing the wheel in each country. Simultaneously, international integration as made it much easier to centralize production in large-scale facilities at the most attractive locations and to supply world markets from there, unrestrained by international borders. In the same manner, all types of activities, such as R&D, marketing, sales and procurement, can be centralized to profit from worldwide economies of scale.

An equally important aspect of international integration is that suppliers, buyers and competitors can also increasingly operate as if there are no borders. The ability of buyers to shop around internationally makes the world one global market, in which global bargaining power is very important. The ability of suppliers and competitors to reap global economies of scale and sell everywhere around the world creates global industries, in which competition takes place on a worldwide stage, instead of in each nation separately. To deal with such global industries and global markets, the firm must be able to align its market activities across nations.

These demands of standardization, centralization and coordination require a global firm, with a strong center responsible for the global strategy, instead of a federation of autonomous national subsidiaries focused on being responsive to their local circumstances. According to proponents of the global convergence perspective, such *global organizations*, or 'centralized hubs' (Bartlett and Ghoshal, 1995), will become increasingly predominant over time. And as more companies switch to a global strategy and a global organizational form, this will in turn speed up the general process of globalization. By operating in a global fashion, these firms will actually contribute to a further decrease of international variety and

fragmentation. In other words, globalizing companies are both the consequence and a major driver of further global convergence.

11.4.2 The International Diversity Perspective

To executives taking an international diversity perspective, the 'brave new world' outlined above is largely science fiction. People around the world might be sporting a Swatch or a Rolex, munching Big Macs and drinking Coke, while sitting in their Toyota or Nissan, but to conclude that these are symptoms of global convergence is a leap of faith. Of course, there are some brand names and products more or less standardized around the world, and their numbers might actually be increasing. The question is whether these manufacturers are globalizing to meet increasing worldwide similarity, or whether they are actually finally utilizing the similarities between countries that have always existed. The actual level of international variety may really be quite consistent.

It is particularly important to recognize in which respects countries remain different. For instance, the world might be drinking the same soft drinks, but they are probably doing it in different places, at different times, under different circumstances and for different reasons in each country. The product might be standardized worldwide, but the cultural norms and values that influence its purchase and use remain diverse across countries. According to proponents of the international diversity perspective, it is precisely these fundamental aspects of culture that turn out to be extremely stable over time – habits change slowly, but cultural norms and values are outright rigid. Producers might be lucky to find one product that fits in with such cultural diversity, but it would be foolish to interpret this as worldwide cultural convergence.

Other national differences are equally resilient against the tides of globalization. No countries have recently given up their national language in favor of Esperanto or English. On the contrary, there has been renewed emphasis on the local language in many countries (e.g. Ireland and the Baltic countries) and regions (e.g. Catalonia and Quebec). In the same way, political systems have remained internationally diverse, with plenty of examples of localization, even within nations. For instance, in Russia and the US the shift of power to regional governments has increased policy diversity within the country. Similar arguments can be put forward for legal systems, fiscal regimes, educational systems and technological infrastructure – each is extremely difficult to change due to the lock in effects, vested interests, psychological commitment and complex decision-making processes.

For each example of increasing similarity, a counterexample of local initiatives and growing diversity could be given. Some proponents of the international diversity perspective argue that it is exactly this interplay of divergence and convergence forces that creates a dynamic balance preserving diversity. While technologies, organizing principles, political trends and social habits disperse across borders, resulting in global convergence, new developments and novel systems in each nation arise causing international divergence (Dosi and Kogut, 1993). Convergence trends are usually easier to spot than divergence – international dispersion can be more simply witnessed than new localized developments. To the casual observer, this might suggest that convergence trends have the upper hand, but after more thorough analysis, this conclusion must be cast aside.

Now add to this enduring international diversity the reality of international economic relations. Since World War II attempts have been made to facilitate the integration of national economies. There have been some regional successes (e.g. the North American Free Trade Association and the European Union) and some advances have been made on a worldwide scale (e.g. the World Trade Organization). However, progress has been slow and important political barriers remain.

The continued existence of international diversity and political obstacles, it is argued, will limit the extent to which nations can become fully integrated into one borderless world. International differences and barriers to trade and investment will frustrate firms' attempts to standardize and centralize, and will place a premium on firms' abilities to adapt and decentralize. Of course, there will be some activities for which global economies of scale can be achieved and for which international coordination is needed, but this will not become true for all activities. Empowering national executives to be responsive to specific local conditions will remain an important ingredient for international success. Balancing globalization and localization of the firm's activities will continue to be a requirement in the future international context.

Ideally, the internationally operating company should neither deny nor regret the existence of international diversity, but regard it as an opportunity that can be exploited. Each country's unique circumstances will pose different challenges, requiring the development of different competences. Different national 'climates' will create opportunities for different innovations. If a company can tap into each country's opportunities and leverage the acquired competences and innovations to other countries, this could offer the company an important source of competitive advantage. Naturally, these locally leveraged competences and innovations would subsequently need to be adapted to the specific circumstances in other countries. This balancing act would require an organization that combined strong local responsiveness with the ability to exchange and coordinate internationally, even on a worldwide scale. International organizations blending these two elements are called *transnational* (Bartlett and Ghoshal, 1995), or *heterarchical* (Hedlund, 1986). However, in some businesses the international differences will remain so large that an even more locally responsive organizational form might be necessary, operating on a federative basis.

11.5 CONCLUSION

So, do executives believe that the international context is moving towards increased similarity and integration, or do they think that it will remain as diverse and fragmented as at the moment? And what do executives suppose this mean for the international configuration of firms? Do they assume that they should anticipate and encourage global convergence by emphasizing global standardization, centralization and coordination? Then they would choose to place more emphasis on realizing value creation by means of global synergies, accepting some value destruction due to a loss of local responsiveness. Or do they feel that they should acknowledge and exploit international diversity by emphasizing local adaptation, decentralization and autonomy? They would then focus on being locally responsive, accepting that this will frustrate the realization of cross-border synergies.

These main differences between the global convergence perspective and the international diversity perspective are outlined in table 11.1. As in previous chapters, these two opposite poles on the issue of international strategy can be translated into two sets of opposing policy statements. These statements, summarized in table 11.2, can be used as items for capturing executives' strategy perspectives when constructing a psychometric instrument. These statements will be revisited in chapter 14.

TABLE 11.1
Global convergence versus international diversity perspective

	Global Convergence Perspective	**International Diversity Perspective**
Emphasis on	Globalization over localization	Localization over globalization
International variety	Growing similarity	Remaining diversity
International linkages	Growing integration	Remaining fragmentation
Major drivers	Technology and communication	Cultural and institutional identity
Diversity & fragmentation	Costly, convergence to be encouraged	Reality, can be exploited
Strategic focus	Global-scale synergies	Local responsiveness
Organizational preference	Standardize/centralize unless	Adapt/decentralize unless
Innovation process	Center-for-global	Locally-leveraged
Organizational structure	Global (centralized hub)	Transnational (integrated network)

TABLE 11.2
Statements representing the opposite perspectives

Global Convergence Perspective		**International Diversity Perspective**	
17.1	International firms should strive to sell globally standardized products.	18.1	International firms should strive to sell products adapted to local needs and conditions.
17.2	Around the world countries are becoming more and more similar.	18.2	Around the world countries will remain significantly different.
17.3	In most industries, the competitive game increasingly takes place on a worldwide scale.	18.3	In most industries, the competitive game in each country will remain independent of what happens in other countries.
17.4	International firms should focus on global standardization, to reap economies of scale.	18.4	International firms should focus on local adaptation to a country's specific demands.
17.5	Firms should coordinate their international activities to realize cross-border synergies.	18.5	International firms should establish autonomous country units to facilitate local responsiveness.
17.6	Successful international firms gradually develop into nationless organizations.	18.6	Successful international firms retain a clear sense of national identity.
17.7	To be successful, firms will need to have a strong position in all major countries around the world.	18.7	Even in the long run, firms can remain competitive without having a strong position all around the world.
17.8	With each new generation of children, consumer behaviour around the world converges even further.	18.8	Local habits, fashions and trends will cause international differences in consumer behaviour to remain.
17.9	International companies should concentrate their R&D activities in one country to achieve global economies of scale.	18.9	International companies should spread their R&D activities across a number of countries to make use of local expertise.

17.10	International companies should centralize their worldwide purchasing to get the best possible deal for the entire firm.	18.10	International companies should have decentralized purchasing to allow local executives to negotiate deals that fit best with the local needs.
17.11	If an international company adapts its products to each national market, it probably lacks the imagination to find a cheaper, standardized product.	18.11	If an international company has globally standardized products, it probably lacks the capability to create a more tailored local variation.
17.12	International firms should strive towards a uniform corporate culture all around the world.	18.12	International firms should adapt the corporate culture to make it fit better with the local circumstances.

Chapter 12

ORGANIZATIONAL PURPOSE

12.1 INTRODUCTION

At the beginning of this study, strategy was defined as a course of action for achieving an organization's purpose. Subsequently, many chapters were spent looking at strategy from many different angles, but scant attention was paid to the *organizational purposes* that firms want to achieve. How to set a course for the organizational vessel through turbulent waters was discussed, but the question of why the journey was being undertaken in the first place was hardly raised – the focus was on *means*, not on *ends*. This lack of attention for the subject of organizational purpose is widespread in the strategic management literature. This might be due to the widespread assumption that it is obvious why business organizations exist. Some writers might avoid the topic because it is highly value-laden and somehow outside the realm of strategic management.

Yet, in practice, executives must constantly make choices and seek solutions based on an understanding of what their organization is intended to achieve. It is hardly possible for strategizing executives to avoid taking a stance on what they judge to be the purpose of their organization. They are confronted with many different claimants, who believe that the firm exists to serve their interests. Demands are placed on the firm by shareholders, employees, suppliers, customers, governments and communities, forcing executives to weigh whose interests should receive priority over others. Even when explicit demands are not voiced, executives must still determine who will be the main beneficiary of the value creation activities of the firm.

Where executives have a clear understanding of their organization's purpose, this can provide strong guidance during processes of strategic thinking, strategy formation and strategic change. The organizational purpose can function as a fundamental principle, against which strategic options can be evaluated. Yet, while of central importance, organizations can be guided by more principles than organizational purpose alone. For example, they can be strongly influenced by certain business philosophies and values. The broader set of fundamental principles giving direction to strategic decision-making, of which organizational purpose is the central element, is referred to as the *corporate mission*.

Determining the corporate mission is a challenging task, not least because there are so many different views on how it should be done. In this chapter, the issue of corporate mission will be explored in more detail, with the intention of uncovering the conflicting perspectives on the subject of organizational purpose, which lay at the heart of the divergent opinions.

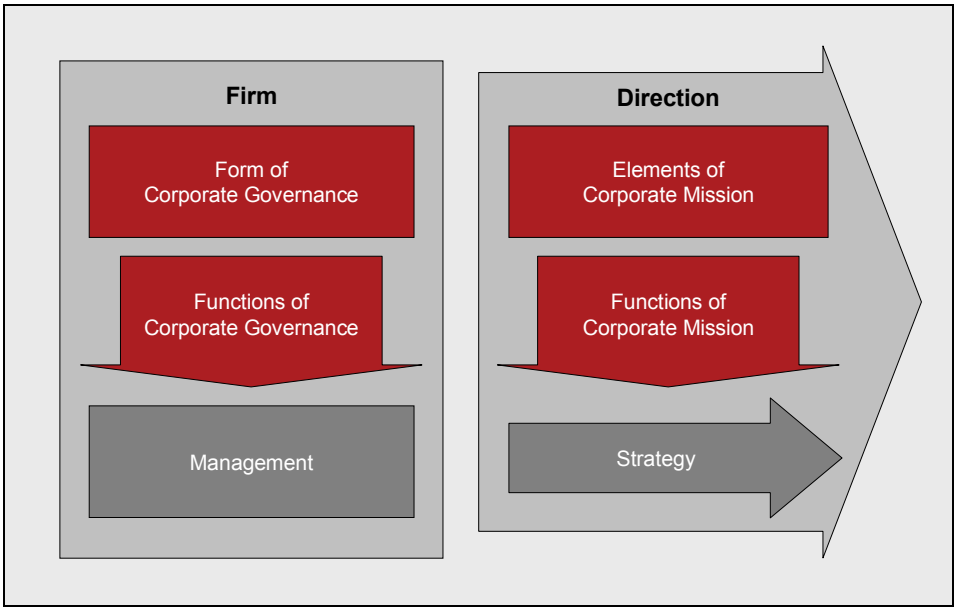
12.2 THE ISSUE OF CORPORATE MISSION

Corporate mission is a rather elusive concept, often used to refer to the wooly platitudes on the first few pages of annual reports. To many people, *mission statements* are lists of lofty principles that have potential public relations value, but have little bearing on actual business, let alone impact on the process of strategy formation. Yet, while frequently employed in this hollow manner, a corporate mission can be very concrete and play an important role in determining strategic actions.

A good way to explain the term's meaning is to go back to its etymological roots. 'Mission' comes from the Latin word *mittere*, which means 'to send' (Cummings and Davies, 1994). A mission is some task, duty or purpose that "sends someone on their way" – a motive or driver propelling someone in a certain direction. Hence, 'corporate mission' can be understood as the basic drivers sending the corporation along its way. The corporate mission consists of the fundamental principles that mobilize and propel the firm in a particular direction.

The corporate mission contributes to 'sending the firm in a particular direction' by influencing the firm's strategy. To understand how a mission impacts strategy, two topics require closer attention. First, it is necessary to know what types of 'fundamental principles' actually make up a corporate mission. These *elements of corporate mission* will be described below. Secondly, it needs to be examined what types of roles are played by a corporate mission in the strategy formation process. These *functions of corporate mission* will also be described (see figure 12.1).

FIGURE 12.1
Corporate mission and corporate governance



Besides the '*what'* of corporate mission, it is equally important to explore the '*who'* – who should determine a corporate mission. In the previous chapters, the implicit assumption has consistently been that executives are the primary 'strategic actors' responsible for setting the

direction of the firm. But in fact, their actions are formally monitored and control by the board of directors. In this way, the direction of the firm must be understood as a result of the interaction between management ('the executives') and the board of directors. As the name would imply, *directors* have an important influence on *direction*.

The activities of the board of directors are referred to as *corporate governance* – directors govern the strategic choices and actions of the management of a firm. And because they have such an important role in setting the corporate mission and strategy, their input will be examined here as well. First, an overall review will be presented of the various *functions of corporate governance*. Then it will be examined what the different *forms of corporate governance* are, as this can severely influence the eventual mission and strategy that are followed (see figure 12.1).

12.2.1 Elements of Corporate Mission

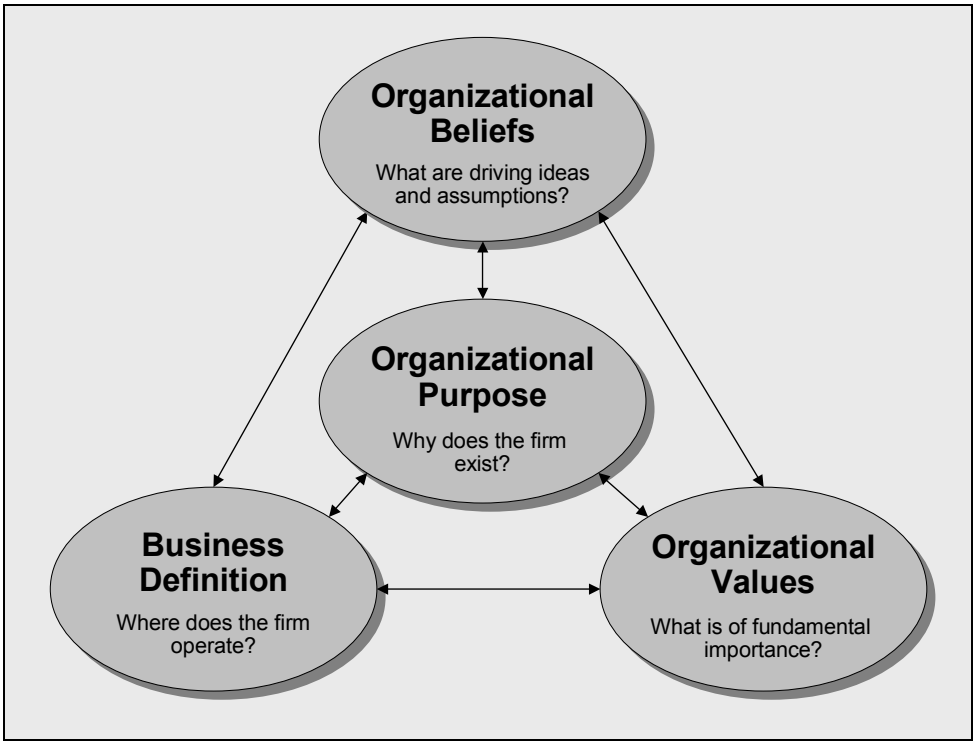
Organizational purpose can be defined as the reason for which an organization exists. It can be expected that the perception that executives have of their organization's purpose will give direction to the strategy process and influence the strategy content (e.g. Bartlett and Ghoshal, 1994; Campbell and Tawadey, 1990). Sometimes strategizing executives consciously reflect on, or question, the organizational purpose as they make strategic choices. However, more often their view of the organization's purpose will be a part of a broader set of business principles that steers their strategic thinking. This enduring set of fundamental principles that forms the base of a firm's identity and guides its strategic decision-making, is referred to as the corporate mission.

While the purpose of an organization is at the heart of the corporate mission, three other components can also be distinguished (see figure 12.2):

- *Organizational beliefs*. All strategic choices ultimately include important assumptions about the nature of the environment and what the firm needs to do to be successful in its business. If people in a firm do not share the same fundamental strategic beliefs, joint decision-making will be very protracted and conflictual – opportunities and threats will be interpreted differently and preferred solutions will be very divergent (see chapter 3). To work swiftly and in unison, a common understanding is needed. The stronger the set of shared beliefs subscribed to by all organizational members, the easier communication and decision-making will become, and the more confident and driven the group will be. Where researchers refer to the organizational ideology ('system of ideas') as their *collective cognitive map* (Axelrod, 1976), *dominant logic* (Prahald and Bettis, 1986) or *team mental model* (Klimoski and Mohammed, 1994), companies themselves usually simply speak of their beliefs or philosophy.
- *Organizational values*. Each person in an organization can have their own set of values, shaping what they believe to be good and just. Yet, when an organization's members share a common set of values, determining what they see as worthwhile activities, ethical behavior and moral responsibilities, this can have a strong impact on the strategic direction (e.g. Falsey, 1989; Hoffman, 1989). Such widely embraced organizational values also contribute to a clear sense of organizational identity, attracting some individuals, while repelling others. Although it can be useful to explicitly state the values guiding the organization, to be influential they must become embodied in the organization's culture (e.g. McCoy, 1985; Collins and Porras, 1994).
- *Business definition*. For some firms, any business is good business, as long as they can make a reasonable return on investment. Yet, if any business is fine, the firm will lack a

sense of direction. In practice, most firms have a clearer identity, which they derive from being active in a particular line of business. For these firms, having a delimiting definition of the business they wish to be in strongly focuses the direction in which they develop. Their business definition functions as a guiding principle, helping to distinguish opportunities from diversions (e.g. Abell, 1980; Pearce, 1982). Of course, while a clear business definition can focus the organization's attention and efforts, it can lead to shortsightedness and the missing of new business developments (e.g. Ackoff, 1974; Levitt, 1960).

FIGURE 12.2
Elements of a corporate mission



The strength of a corporate mission will depend on whether these four elements fit together and are mutually reinforcing (Campbell and Yeung, 1991). Where a consistent and compelling corporate mission is formed, this can infuse the organization with a *sense of mission*, creating an emotional bond between organizational members and energizing them to work according to the mission.

A concept that is often confused with mission is vision. Individuals or organizations have a *vision* if they picture a future state of affairs they wish to achieve (from the Latin *vide* – to see; Cummings and Davies, 1994). While the corporate mission outlines the fundamental principles guiding strategic choices, a strategic vision outlines the desired future at which the company hopes to arrive. In other words, vision provides a *business aim*, while mission provides *business principles* (see figure 12.3).

Generally, a strategic vision is a type of aim that is less specific than a short-term *target* or longer-term *objective*. Vision is usually defined as a broad conception of a desirable future state, of which the details remain to be determined (e.g. Senge, 1990; Collins and Porras, 1996). As such, strategic vision can play a similar role as corporate mission, pointing the firm in a particular direction and motivating individuals to work together towards a shared end.

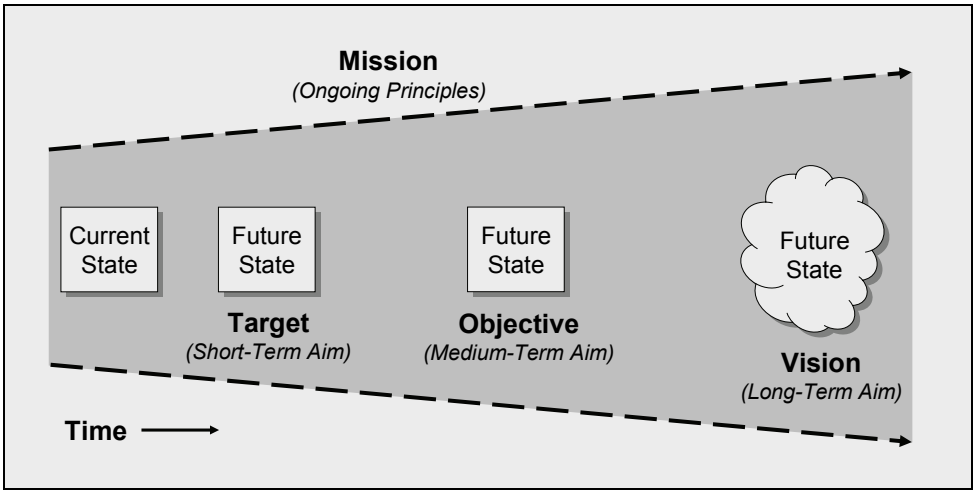
12.2.2 Functions of Corporate Mission

The corporate mission can be articulated by means of a *mission statement*, but in practice not everything that is called a mission statement meets the above criteria (e.g. David, 1989; Piercy and Morgan, 1994). However, firms can have a mission, even if it has not been explicitly written down, although this does increase the chance of divergent interpretations within the organization.

In general, paying attention to the development of a consistent and compelling corporate mission can be valuable for three reasons. A corporate mission can provide:

- *Direction*. The corporate mission can point the organization in a certain direction, by defining the boundaries within which strategic choices and actions must take place. By specifying the fundamental principles on which strategies must be based, the corporate mission limits the scope of strategic options and sets the organization on a particular heading (e.g. Bourgeois and Brodwin, 1983; Hax, 1990).
- *Legitimization*. The corporate mission can convey to all stakeholders inside and outside the company that the organization is pursuing valuable activities in a proper way. By specifying the business philosophy that will guide the company, the chances can be increased that stakeholders will accept, support and trust the organization (e.g. Klemm, Sanderson and Luffman, 1991; Freeman and Gilbert, 1988).

FIGURE 12.3
Corporate mission and strategic vision



- *Motivation*. The corporate mission can go a step further than legitimization, by actually inspiring individuals to work together in a particular way. By specifying the fundamental principles driving organizational actions, an *esprit de corps* can evolve, with the powerful capacity to motivate people over a prolonged period of time (e.g. Campbell and Yeung, 1991; Peters and Waterman, 1982).

Especially these last two functions of a corporate mission divide both management theorists and business practitioners. What is seen as a legitimate and motivating organizational purpose is strongly contested. What the main factors of disagreement are will be examined in a later section of this chapter.

12.2.3 Functions of Corporate Governance

The subject of *corporate governance*, as opposed to *corporate management*, deals with the issue of governing the strategic choices and actions of top management. Popularly stated, corporate governance is about managing top management – building in checks and balances to ensure that the senior executives pursue strategies that are in accordance with the corporate mission. Corporate governance encompasses all tasks and activities that are intended to supervise and steer the behavior of top management.

In the common definition, corporate governance "addresses the issues facing boards of directors" (Tricker, 1994: xi). In this view, corporate governance is the task of the directors and therefore attention must be paid to their roles and responsibilities (e.g. Cochran and Wartick, 1994; Keasey, Thompson and Wright, 1997). Others have argued that this definition is too narrow, and that in practice there are more forces that govern the activities of top management. In this broader view, boards of directors are only a part of the *governance system*. For instance, regulation by local and national authorities, as well as pressure from societal groups, can function as the checks and balances limiting top management's discretion (e.g. Mintzberg, 1984; Demb and Neubauer, 1992).

Whether employing a narrow or broad definition, three important corporate governance functions can be distinguished (adapted from Tricker, 1994):

- *Forming Function*. The first function of corporate governance is to influence the forming of the corporate mission. The task of corporate governance is to shape, articulate and communicate the fundamental principles that will drive the organization's activities. Determining the purpose of the organization and setting priorities among claimants are part of the forming function. The board of directors can conduct this task by, for example, questioning the basis of strategic choices, influencing the business philosophy, and explicitly weighing the advantages and disadvantages of the firm's strategies for various constituents (e.g. Freeman and Reed, 1983; Yoshimori, 1995).
- *Performance Function*. The second function of corporate governance is to contribute to the strategy process with the intention of improving the future performance of the corporation. The task of corporate governance is to judge strategy initiatives brought forward by top management and/or to actively participate in strategy development. The board of directors can conduct this task by, for example, engaging in strategy discussions, acting as a sounding board for top management, and networking to secure the support of vital stakeholders (e.g. Baysinger and Hoskisson, 1990; Donaldson and Davis, 1995; Zahra and Pearce, 1989).
- *Conformance Function*. The third function of corporate governance is to ensure corporate conformance to the stated mission and strategy. The task of corporate governance is to

monitor whether the organization is undertaking activities as promised and whether performance is satisfactory. Where management is found lacking, it is a function of corporate governance to press for changes. The board of directors can conduct this task by, for example, auditing the activities of the corporation, questioning and supervising top management, determining remuneration and incentive packages, and even appointing new executives (e.g. Parkinson, 1993; Spencer, 1983).

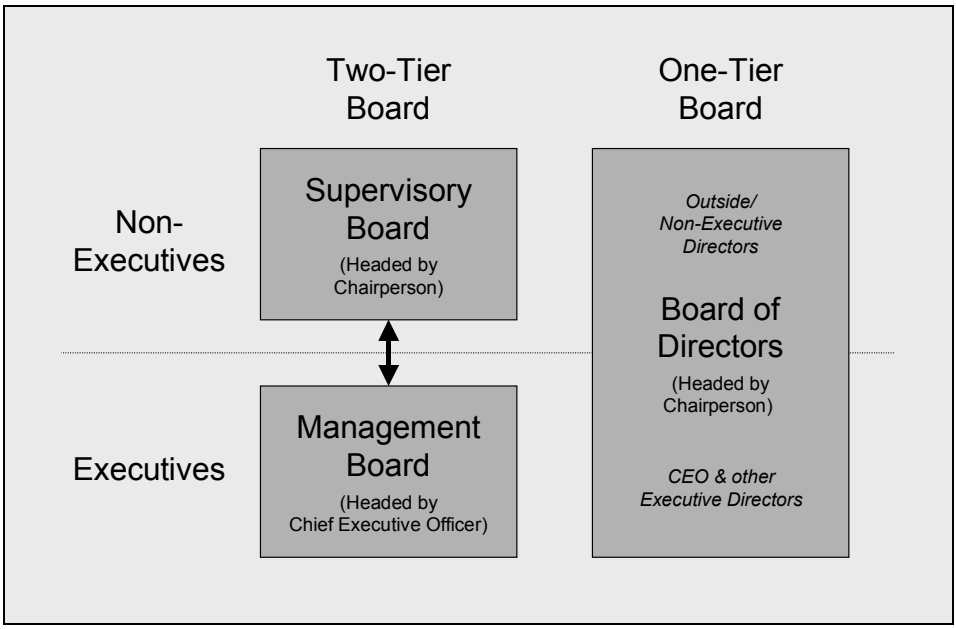
These functions give the board of directors considerable influence in determining and realizing the corporate mission. As such, they have the ultimate power to decide on the organizational purpose. Therefore, it is not surprising that the question to whom these functions should be given is extremely important.

12.2.4 Forms of Corporate Governance

There is considerable disagreement on how boards of directors should be organized and run. Currently, each country has its own system of corporate governance and the international differences are large. Yet even within many countries, significant disagreements are discernable. In designing a corporate governance regime, three characteristics of boards of directors are of particular importance (adapted from Tricker, 1994):

- *Board structure*. Internationally, there are major differences between countries requiring a two-tier board structure (e.g. Germany, the Netherlands and Finland), countries with a one-tier board (e.g. United States, Britain and Japan), and countries in which companies are free to choose (e.g. France and Switzerland). In a two-tier system there is a formal division of power, with a management board made up of the top executives and a distinct supervisory board made up of non-executives, with the task of monitoring and steering the management board. In a one-tier (or unitary) board system, executive and non-executive (outside) directors sit together on one board (see figure 12.4).
- *Board membership*. The composition of boards of directors can vary sharply, from company to company, and country to country. Some differences are due to legal requirements that are not the same internationally. For instance, in Germany by law half of the membership of a supervisory board must represent labor, while the other half represents the shareholders. In French companies labor representatives are given observer status on the board. In other countries there are no legal imperatives, yet differences have emerged. In some cases outside (non-executive) directors from other companies are common, while in other nations fewer outsiders are involved. Even within countries differences can be significant, especially with regard to the number, stature and independence of outside (non-executive) directors.
- *Board tasks*. The tasks and authority of boards of directors also differ quite significantly between companies. In some cases boards meet infrequently and are merely asked to vote on proposals put in front of them. Such boards have little formal or informal power to contradict the will of the CEO. In other companies, boards meet regularly and play a more active role in corporate governance, by formulating proposals, proactively selecting new top executives, and determining objectives and incentives. Normally, the power of outside (non-executive) directors to monitor and steer a company only partly depends on their formally defined tasks and authority. To a large degree their impact is determined by how proactive they define their own role.

FIGURE 12.4
Two vs. one tier board structure



The question in the context of this chapter is how a board of directors should be run to ensure that the organization's purpose is best achieved. What should be the structure, membership and tasks of the board of directors, to realize the ends for which the organization exists?

12.3 THE TENSION BETWEEN PROFITABILITY AND RESPONSIBILITY

Discussions on what firms should strive to achieve are not limited to the field of strategic management. Given the influential position of business organizations in society, the purpose they should serve is also discussed by theorists in the fields of economics, political science, sociology, ethics and philosophy. Since the industrial revolution, and the rise of the modern corporation, the role of business organizations within the 'political economic order' has been a central theme in many of the social sciences. It has been the topic that has filled libraries of books, inspired society-changing theories and stirred deep-rooted controversies.

The enormous impact of corporations on the functioning of society has also attracted political parties, labor unions, community representatives, environmentalists, the media and the general public to the debate. All take a certain position on the role that business organizations should play within society and the duties that they ought to shoulder. Here, too, the disagreements can be heated, often spilling over from the political arena and negotiation tables into the streets.

In countries with a market economy, it is generally agreed that companies should pursue strategies that ensure *economic profitability*, but that they have certain *social responsibilities* that must be fulfilled as well. But this is where the consensus ends. Opinions differ sharply with regard to the relative importance of profitability and responsibility. Some people subscribe to the view that profitability is the very purpose of economic organizations

and that the only social responsibility of a firm is to pursue profitability within the boundaries of the law. However, other people argue that business corporations are not only economic entities, but also social institutions, embedded in a social environment, which brings along heavy social responsibilities. In this view, organizations are morally obliged to behave responsibly towards all parties with a stake in the activities of the firm, and profitability is only a means to fulfill this duty.

Most executives accept that both economic profitability and social responsibility are valuable goals to pursue. Yet, as organizational purpose, profitability and responsibility are at least partially contradictory. If executives strive towards profit maximization, shareholders might be enamored, but this will bring executives into conflict with the optimization of benefits for other stakeholders. In other words, to a certain extent there is a tension between the profitability and responsibility (e.g. Cannon, 1992; Demb and Neubauer, 1992; Drucker, 1984; Yoshimori, 1995).

12.3.1 The Demand for Economic Profitability

It is clear that business organizations must be profitable to survive. Yet simple profitability, that is having higher income than costs, is not sufficient. To be an attractive investment, a company must earn a higher return on the shareholders' equity than could be realized if the money were deposited in the bank. Put differently, investors must have a financial incentive to run a commercial risk; otherwise they could just as well bring their money to the bank or buy low risk government bonds.

Yet, offsetting the risk bourn by investors is but a small part of the larger picture. Once a corporation has established a track record of profitability, this inspires trust among financers. Such trust makes it much easier to raise new capital, either through borrowing (at more attractive rates) or by issuing new shares. And of course, new capital can be used to further the competitive objectives of the organization. Where companies have not been particularly profitable in the past, and cannot authoritatively project an attractive level of profitability in the future, they will find it difficult or virtually impossible to find new financing. This can significantly weaken the position of the firm and undermine its long-term competitiveness.

For publicly-traded corporations strong profitability is usually reflected in higher share prices, which is not only beneficial to the shareholders at that moment, but also makes it easier to acquire other firms and to pay with shares. Moreover, a high share price is the best defense against a hostile takeover and the best negotiation chip for a friendly one. In both publicly and privately held companies, retained profits can be an important source of funds for new investments as well.

In short, profitability is not only a *result*, but also a *source*, of competitive power. Profitability provides a company with the financial leeway to improve its competitive position and pursue its ambitions.

12.3.2 The Demand for Social Responsibility

As economic entities engaging in formalized arrangements with employees, suppliers, buyers, and government agencies, corporations have the legal responsibility to abide by the stipulations outlined in their contracts. Equally, they are bound to stay within the 'letter of the law' in each jurisdiction in which they operate. However, being good corporate citizens entails more than just staying out of court.

Companies are more than just 'economic machines' regulated by legal contracts. They are also networks of people, working together towards a common goal. And as members of a social group, people within a company need to develop a sense of *community* if they are to function properly. One of the most basic needs is to build a level of *trust* among people – a feeling of security that each individual's interests will be taken into account. Trust evolves where people feel certain that others will behave in a socially responsible manner, instead of letting their own self-interest prevail without limitation. Once there is enough trust between people, they can engage in productive teamwork and invest in their mutual relationships.

Hence, social responsibility – that is, acting in the interest of others, even when there is no legal imperative – lies at the basis of trust. And where there is trust, people are generally willing to *commit* themselves to the organization, both emotionally and practically. Emotionally, they will become involved with, and can become strongly connected to, the organization, which can lead to a sense of pride and loyalty. Practically, they will be willing to invest years acquiring firm-specific knowledge and skills, and in building a career. Such commitments make people *dependent* on the organization, as they will be less able and inclined to job-hop. It is therefore vital that the organization rewards such commitment by acting responsibly, even where this hurts profitability; otherwise the bond of trust can be seriously damaged.

Acting in the interest of all employees is a limited form of social responsibility. Just as it is beneficial for trust to evolve within organizations, it is important for trust to develop between the organization and its broader environment of buyers, suppliers, governments, local communities and activist groups. Therefore, it is important that these organizations also come to trust that the organization is willing to act in a socially responsible way, even when this entails sacrificing profitability.

12.4 PERSPECTIVES ON ORGANIZATIONAL PURPOSE

Firms require a certain measure of economic profitability, if they want to compete and survive, and they need to exhibit a certain amount of social responsibility, if they are to retain the trust and support of key stakeholders. In itself, this creates a tension, as the two demands can be at odds with one another. Often, socially responsible behavior costs money, which can only be partially recouped by the increased 'social dividend' it brings. But if profitability and responsibility are both seen as the ultimate purpose of business firms, then the tension is even stronger, as optimizing the one will be in conflict with maximizing the other. Emphasizing profitability means subjecting all investments to an economic rationale – socially responsible behavior should only be undertaken if the net present value of such an investment is attractive or there is no legal way of avoiding compliance. Emphasizing responsibility means subjecting all activities to a moral and/or political rationale – asking who has a legitimate and pressing claim to be included as a beneficiary of the activities being undertaken, which can severely depress profitability.

Hence, it is not surprising to find that the tension between profitability and responsibility strongly divides people across many walks of life, not only business executives and management theorists. The main point of contention is whether firms should primarily be run for the financial benefit of the legal owners, or for the broader benefit of all parties with a significant interest in the joint endeavor. Should it be the purpose of firms to serve the interests of their *shareholders* or of their *stakeholders*? Should profitability be emphasized because economic organizations belong to the providers of risk capital, or should responsibility be emphasized because organizations are joint ventures bringing together various resource providers by means of a social contract?

While there are many points of view on the 'right' organizational purpose in the strategy literature, here the two diametrically opposed positions will be identified and discussed. At the one pole of the debate are those people who argue that corporations are established to serve the purposes of their owners. Generally, it is in the best interest of a corporation's shareholders to see the value of their stocks increase through the organization's pursuit of profitable business strategies. This point of view is commonly referred to as the *shareholder value perspective*. At the other end of the spectrum are those people who argue that corporations should be seen as joint ventures between shareholders, employees, banks, customers, suppliers, governments and the community. All of these parties hold a stake in the organization and therefore can expect that the corporation will take as its responsibility to develop business strategies that are in accordance with their interests and values. This point of view will be referred to as the *stakeholder values perspective*.

12.4.1 The Shareholder Value Perspective

To proponents of the shareholder value perspective it is obvious that companies belong to their owners and therefore should act in accordance with the interests of the owners. Corporations are instruments, whose purpose it is to create economic value on behalf of those who invest risk-taking capital in the enterprise. This clear purpose should drive companies, regardless of whether they are privately or publicly held. According to Rappaport (1986), "the idea that business strategies should be judged by the economic value they create for shareholders is well accepted in the business community. After all, to suggest that companies be operated in the best interests of its owners is hardly controversial."

There is some disagreement between advocates of this perspective with regard to the best way of advancing the interests of the shareholders, particularly in publicly held companies. Many people taking this point of view argue that the well being of the shareholders is served if the strategy of a company leads to higher share prices and/or higher dividends (e.g. Hart, 1995; Rappaport, 1986). Others are less certain of the stock markets' ability to correctly value long-term investments, such as R&D spending and capital expenditures. In their view, the stock markets are excessively concerned with the short term and therefore share prices myopically overemphasize current results and heavily discount investments for the future. To avoid being pressured into short-termism, these people advocate that strategists must keep only one eye on the share prices, while the other is focused on the long-term horizon (e.g. Charkham, 1994; Sykes, 1994).

According to supporters of the shareholder value perspective, one of the major challenges in large corporations is to actually get top management to pursue the shareholders' interests. Where ownership and executiveial control over a company have become separated, it is often difficult to get the executives to work on behalf of the shareholders, instead of letting executives' self-interest prevail. This is known as the *principal-agent problem* (e.g. Jensen and Meckling, 1976; Eisenhardt, 1989) – the executives are agents, working to further the interests of their principals, the shareholders, but are tempted to serve their own interests, even when this is to the detriment of the principal. This has led to a widespread debate in the academic and business communities, especially in Britain and the United States, about the best form of corporate governance. The most important players in corporate governance are the outside, or non-executive, members on the board of directors. It is one of the tasks of these outsiders to check whether the executives are truly running the company in a way that maximizes the shareholders' wealth. For this reason, many proponents of the shareholder value perspective call for a majority of independent-minded outside directors in the board, preferably owning significant amounts of the company's stock themselves.

The emphasis placed on profitability as the fundamental purpose of firms does not mean that supporters of the shareholder value perspective are blind to the demands placed on firms by other stakeholders. On the contrary, most exponents of this view argue that it is in the interest of the shareholders to carry out a *stakeholder analysis* and even to actively manage stakeholder relations. Knowing the force field of stakeholders constraining the freedom of the company is important information for the strategy process. It is never advisable to ignore important external claimants such as labor unions, environmental activists, bankers, governmental agencies and community groups. Few strategists would doubt that proactive engagement is preferable to 'corporate isolationism'. However, recognizing that it is expedient to pay attention to stakeholders does not mean that it is the corporation's purpose to serve them. If parties have a strong bargaining position, a firm might be forced into all types of concessions, sacrificing profitability, but this has little to do with any moral responsibility of the firm towards these other powers. The only duty of a company is to maximize shareholder value, within the boundaries of what is legally permissible.

The important conclusion is that in this perspective it might be in the interest of shareholders to treat stakeholders well, but that there is no moral obligation to do so. For instance, it might be a good move for a troubled company not to lay off workers if the resulting loyalty and morale improve the chances of recovery and profitability later on. In this case the decision not to fire workers is based on profit-motivated calculation, not on a sense of moral responsibility towards the employees. Generally, proponents of the shareholder value perspective argue that society is best served by this type of economic rationale. By pursuing enlightened self-interest and maintaining market-based relationships between the firm and all stakeholders, societal wealth will be maximized. Responsibility for employment, local communities, the environment, consumer welfare and social developments are not an organizational matter, but issues for individuals and governments (Friedman, 1970).

12.4.2 The Stakeholder Values Perspective

Advocates of the stakeholder values perspective do not see why the supplier of one ingredient in an economic value creation process has a stronger moral claim on the organization than the providers of other inputs. They challenge the assumption that individuals with an equity stake in a corporation have the right to demand that the entire organization work on their behalf. In the stakeholder values perspective, a company should not be seen as the instrument of shareholders, but as a coalition between various resource suppliers, with the intention of increasing their common wealth. An organization should be regarded as a joint venture in which the suppliers of equity, loans, labor, management, expertise, parts and service all participate to achieve economic success. As all groups hold a stake in the joint venture and are mutually dependent, it is argued that the purpose of the organization is to serve the interests of all parties involved (e.g. Berle and Means, 1932; Freeman and Reed, 1983).

According to endorsers of the stakeholder values perspective, shareholders have a legitimate interest in the firm's profitability. However, the emphasis shareholders place on stock price appreciation and dividends must be balanced against the legitimate demands of the other partners. These demands are not only financial, as in the case of the shareholders, but also qualitative, reflecting different values held by different groups (e.g. Clarke, 1998; Freeman, 1984). For instance, employees might place a high value on job security, occupational safety, holidays and working conditions, while a supplier of parts might prefer secure demand, joint innovation, shared risk-taking and prompt payment. Of course, balancing these interests is a challenging task, requiring an on-going process of negotiation and compromise. The outcome will in part depend on the bargaining power of each stakeholder – how essential is its input to the economic success of the organization?

However, the extent to which a stakeholder's interests are pursued will depend on the perceived legitimacy of their claim as well. For instance, employees usually have a strong moral claim because they are heavily dependent on the organization and have a relatively low mobility, while most shareholders have a spread portfolio and can 'exit the corporation with a phone call' (Stone, 1975).

In this view of organizational purpose, executives must recognize their responsibility towards all constituents (e.g. Clarkson, 1995; Alkhafaji, 1989). Maximizing shareholder value to the detriment of the other stakeholders would be unjust. Executives in the firm have a moral obligation to consider the interests and values of all joint-venture partners. Managing stakeholder demands is not merely a pragmatic means of running a profitable business – serving stakeholders is an end in itself. These two interpretations of stakeholder management are often confused. Where it is primarily viewed as an approach or technique for dealing with the essential participants in the value-adding process, stakeholder management is *instrumental*. But if it is based on the fundamental notion that the organization's purpose is to serve the stakeholders, then stakeholder management is *normative* (e.g. Buono and Nichols, 1985; Donaldson and Preston, 1995).

Most proponents of the stakeholder values perspective argue that, ultimately, pursuing the joint interests of all stakeholders it is not only more just, but also more effective for organizations (e.g. Jones, 1995; Solomon, 1992). Few stakeholders are filled with a sense of mission to go out and maximize shareholder value, especially if shareholders bear no responsibility for the other stakeholders' interests (e.g. Campbell and Yeung, 1991; Collins and Porras, 1994). It is difficult to work as a motivated team, if it is the purpose of the organization to serve only one group's interests. Furthermore, without a stakeholder values perspective, there will be a deep-rooted lack of trust between all of the parties involved in the enterprise. Each stakeholder will assume that the others are solely motivated by self-interest and are tentatively cooperating in a calculative manner. All parties will perceive a constant risk that the others will use their power to gain a bigger slice of the pie, or even rid themselves of their 'partners'. The consequence is that all stakeholders will vigorously guard their own interests and will interact with one another as adversaries. To advocates of the stakeholder values perspective, this 'every person for themselves' model of organizations is clearly inferior to the partnership model, in which sharing, trust, and symbiosis are emphasized. Cooperation between stakeholders is much more effective than competition (note the link with the embedded organization perspective in chapter 7).

Some exponents of the stakeholder values perspective argue that the narrow economic definition of stakeholders given above is too constrictive. In their view, the circle of stakeholders with a legitimate claim on the organization should be drawn more widely. Not only should the organization be responsible to the direct participants in the economic value creation process (the *primary stakeholders*), but also to all parties affected by the organization's activities. For example, an organization's behavior might have an impact on local communities, governments, the environment and society in general, and therefore these groups have a stake in what the organization does as well. Most supporters of the stakeholder values perspective acknowledge that organizations have a moral responsibility towards these *secondary stakeholders* (e.g. Carroll, 1993; Langtry, 1994). However, opinions differ whether it should actually be a part of business organizations' purpose to serve this broader body of constituents.

The implication of this view for corporate governance is that the board of directors should be able to judge whether the interests of all stakeholders are being justly balanced. This has led some advocates of the stakeholder values perspective to call for representatives of the most important stakeholder groups in the board (e.g. Guthrie and Turnbull, 1994). Others argue more narrowly for a stronger influence of employees on the choices made by

organizations (e.g. Buchholz, 1986; Blair, 1995). Such co-determination of the corporation's strategy by management and workers can, for instance, be encouraged by establishing *work councils* (a type of organizational parliament or senate), as is mandatory for larger companies in most countries of the European Union. Yet others emphasize measures to strengthen *corporate social responsibility* in general. To improve corporate social performance, it is argued, companies should be encouraged to adopt internal policy processes that promote ethical behavior and responsiveness to societal issues (e.g. Epstein, 1987; Wartick and Wood, 1998). Corporate responsibility should not be, to quote Ambrose Bierce's sarcastic definition, "a detachable burden easily shifted to the shoulders of God, Fate, Fortune, Luck, or one's neighbor."

TABLE 12.1
Shareholder value versus stakeholder values perspective

	Shareholder Value Perspective	**Stakeholder Values Perspective**
Emphasis on	Profitability over responsibility	Responsibility over profitability
Organizations seen as	Instruments	Joint-ventures
Organizational purpose	To serve owner	To serve all parties involved
Measure of success	Share price & dividends	Satisfaction among stakeholders
Major difficulty	Getting agent to pursue interests	Balancing interests of stakeholders
Governance thru	Independent outside directors	Stakeholder representation
Managing stakeholders	Means	End and means
Social responsibility	Individual, not organizational matter	Both individual and organizational
Society best served by	Pursuing self-interest	Pursuing joint-interests

12.5 CONCLUSION

So, what do executives believe should be the purpose of a firm? Do executives believe that they should strive to maximize shareholder value or stakeholder values? Do they think that it should be the purpose of business organizations to pursue profitability on behalf of their owners, or do they feel that firms should serve the interests and promote the values of all of their stakeholders in a balanced way?

The main differences between the shareholder value perspective and stakeholder values perspective have been summarized in table 12.1. And as in all previous chapters, these two opposite points of view have been translated into two sets of 12 policy statements that can be used to identify where the preferences of executives lie. An overview of these statements is given in table 12.2.

TABLE 12.2
Statements representing the opposite perspectives

Shareholder Value Perspective		**Stakeholder Values Perspective**	
19.1	The ultimate objective of a firm should be to earn a profit for its shareholders.	20.1	The ultimate objective of a firm should be to serve the interests of employees, managers, shareholders and other stakeholders.

19.2	Firms should strive to maximize long-term profitability, even if this means firing long-time employees.	20.2	Firms should strive to ensure long-term profitability, but not by firing long-time employees.
19.3	Firms belong to their shareholders.	20.3	Firms belong to the shareholders, employees, managers and all others who make a major contribution to the organization.
19.4	A firm should be seen as an instrument for investors to make money.	20.4	A firm should be seen as a joint venture between investors, managers and employees.
19.5	The main measure of long-term success is whether a firm is able to create shareholder value.	20.5	The main measure of long-term success is whether a firm is able to satisfy the demands of all major contributors to the organization.
19.6	Top management should not be accountable to representatives of the employees.	20.6	Top management should be accountable to representatives of the employees.
19.7	The only responsibility for firms is to create shareholder value, within the boundaries of the law.	20.7	Firms have social responsibilities beyond those in the law.
19.8	Firms exist to make money, not to create jobs.	20.8	Firms that make a lot of money, but are bad employers, should be despised.
19.9	It is not the responsibility of firms to consider the social impact they have on the local community.	20.9	Business strategies should be judged by the social impact they have on the local community.
19.10	The only way for firms to be good corporate citizens is to build a profitable business.	20.10	To be good corporate citizens, firms should look beyond profitability and make a strong contribution to society's welfare.
19.11	It is not the responsibility of firms to treat their employees well, although it can make good business sense.	20.11	It is the responsibility of firms to treat their employees well, even when it lowers profitability.
19.12	Firms should avoid taking on social responsibilities such as creating jobs and cleaning up the environment.	20.12	Firms have social responsibilities, such as creating jobs and keeping the environment clean.

PART III:

CAPTURING DIFFERENT VIEWS:

MEASURING STRATEGY PERSPECTIVES

Chapter 13

DEVELOPING THE MEASUREMENT INSTRUMENT

13.1 INTRODUCTION

As stated in chapter 1, it is the intention of this study to develop an instrument for measuring executives' strategy beliefs along a selected number of key dimensions. In part II, ten dimensions were derived from the strategic management literature, along which potential differences in strategy perspectives could be quantitatively mapped. For each dimension 24 statements were formulated; 12 representing the strategy perspective at the two poles of each dimension.

In this chapter, the methodology employed for developing the measurement instrument using these dimensions and statements will be described in more detail. First, a more precise definition of the scope of the measurement instrument will be presented in section 13.2. Next, the overall design of the instrument will be outlined (section 13.3), followed by a discussion on the approach used in constructing the measurement scales (section 13.4). This methodological chapter will be concluded by a description of the sample selection and data collection process (section 13.5).

13.2 SCOPE OF THE MEASUREMENT INSTRUMENT

Every quantitative measurement instrument needs to be limited in scope if it is to measure something accurately and meaningfully. In this study, too, a number of choices have been made to focus the measurement process to achieve a useful result. First, an a priori choice was made to measure the beliefs of individuals, instead of collectively shared belief systems. Second, it was decided to measure individual's beliefs directly, by asking them, instead of trying to induce their beliefs from circumstantial evidence. Thirdly, a choice was made to focus on executives' general beliefs, instead of measuring their situation-specific responses. And finally, it was decided to develop an instrument directed at measuring current beliefs, as opposed to measuring the durability of beliefs over time. Each of these four choices, all of which will be discussed in more detail below, are not only limitations to the scope of the measurement instrument, but at the same time are the main design parameters of the intended tool.

13.2.1 Individual as Measurement Unit

The measurement instrument is directed at measuring the strategy beliefs of individual executives. It is the intention to capture the cognitive map of each individual person, not the shared beliefs within a group; the individual is the focus, not the collective. This is an important choice, because it means that the instrument will measure each person as an independent unit, instead of measuring the shared views of a group.

This "atomistic" measurement approach means that the information gathered will be relevant with regard to individuals and populations of individuals, but care is required when drawing conclusions at the level of groups. Of course, knowing the views of all individuals in a group can give an important insight into the distribution of strategy beliefs within the group. However, it can not be automatically assumed that the beliefs of the group will simply be the sum of the individual parts. A group of interacting people might develop a different picture about certain strategic issues than they would individually or people might express different beliefs when they are in a particular social setting. Hence, using individuals as measurement unit is unproblematic if the unit of analysis is also the individual, but caution is advised if a group of individuals is the unit of analysis.

13.2.2 Individual as Information Source

In addition to being the unit of measurement, it has also been decided to make the individual executive the sole source of information about his/her strategy perspective. Information about an executive's cognitive map is not collected via circumstantial evidence or other people's observations, but directly from the individual him/herself.

This direct measurement method has the advantage of being less susceptible to researcher and/or third party interpretations, but has a potential disadvantage that the individual respondent may give socially desirable answers or answers more attuned to fit their self-perception than representative of their true strategy beliefs. However, this disadvantage seems manageable in this context, for a number of reasons:

- *No technically-correct answers*. Firstly, the instrument is not a test. It is not oriented towards measuring the level of strategizing skill ("vertical measurement": high – low), but the perspective someone has ("horizontal measurement": left – right). This focus on mapping different "styles", instead of "ability", is emphasized a number of times during the measurement process to reinforce the message that participants should respond in a relaxed fashion to any questions asked. It removes the pressure to give "the correct answer" and allows respondents to weigh each question without feel that they will be judged about the results.
- *No socially-desirable answers*. A second, related point is that the threat of answering in a socially-desirable manner also seems limited here. Replying in a socially-desirable way is defined as giving an answer that does not reflect one's deeper beliefs, because the respondent wants to conform to what she/he believes the researcher wants to hear. In this situation, however, it is clearly communicated that the researcher is measuring their "style" and has no preference for one style or the other, so it is not likely that the respondents will feel that the researcher favors one answer over the other. Nor do any of the perspectives carry a social stigma or benefit from a saintly "halo-effect", making them more or less desirable to mention in an answer. It should be noted, however, that this does not mean that people do not give *socially-influenced* answers. Of course, most people are influenced by the beliefs of the social groups of which they are a part and their responses

often reflect this influence. But this is no problem. For the measurement instrument it doesn't matter where executives' beliefs come from, as long as it is their true beliefs that are being measured. It is fine if individuals give socially-influenced answers, impacted by the views held by the people around them, as long as they do not give socially-desirable answers, to look good to the researcher.

- *Aspirational answers are still beliefs*. A different type of reason to prefer indirect, instead of direct, measurement of executives' beliefs is that "deeds speak louder than words". It could be argued that asking executives what they believe will only surface their "espoused theories", but not their actual "theories in use" (Agyris and Schön, 1978) – you will only hear how they would like to think, not how they really think. Putting it even more paradoxically, executives will tell you what they would like to believe, or even what they believe that they believe, but they are incapable of telling you what they truly believe. Only by looking at what executives actually decide and carry out, can their true beliefs be reconstructed. However, this approach is also fraught with difficulties; each action will have a multitude of influencing factors, so it is next to impossible to determine what a particular executive was thinking at the time. And even if their theories-in-use could be vetted out, it does not mean that this says much about how these executives will think next time around. So, while there is a risk that asking managers what they believe might only give a map of what they would like to believe, instead of the beliefs on which they will act, this is the best that can be done under the circumstances. It is a limitation that needs to be acknowledged, but also accepted. In the final chapter this issue will be revisited and some ideas for follow up research to compare espoused beliefs with acted-on beliefs will be discussed.

Hence, using executives as only information source means that the intended instrument will be measuring executives' *conscious beliefs* (what they believe they believe), as opposed to *beliefs-in-use* (the beliefs they act on).

In the same way, it must be emphasized that by focusing on the strategic beliefs as expressed by individual executives, the instrument might not always be valuable as a diagnostic tool for understanding executives' recent actions or decisions. By asking executives how they believe they should act in future, the instrument should reveal a lot about what executives would like to be, not what they have been like so far. In other words, the instrument should give insight into their *aspirational self* – what they believe they should do – as opposed to *their actual self* – how they have behaved so far. This is important to keep in mind; the instrument looks forward to intended actions, not backwards at past actions.

13.2.3 General Beliefs, not Situational Beliefs

Consistent with an etic-type research approach (see chapter 1), a further scope limitation is that it is not the intention to measure executives' situation-specific opinion, but rather their more fundamental attitude. Of course, executives usually also have a view on the best strategy for their current business and might even have ideas about the best strategic direction for other organizations, but the measurement instrument has not be designed to capture their situation-specific preferences. The focus is on identifying general strategy principles to which executives subscribe, regardless of the particular circumstances.

Given this focus, it is good to keep in mind that the predictive value of the instrument for an executive's situation-specific point of view will not be perfect. While an executive might espouse a general strategy principle, he/she might always come to a different conclusion, given the special circumstances of a strategic issue.

13.2.4 Belief Preferences, not Belief Durability

A last scope limitation is that the instrument is intended to measure what executives currently believe, not how durable these beliefs are. The focus is on mapping executives' actual strategy views, not the stability of these views over time. This is a significant limitation, as it can not be determined whether executives have deeply-engrained ideologies or superficial preferences. This is the same problem faced by political pollsters in between elections – people will tell you their opinions, but it is difficult to distinguish between "hard core believers" and "opportunistic voters". One executive who scores high on a particular strategy perspective might hold the core ideas as fundamental truths, while another might accept them now as the 'flavor of the month'.

Measuring the "robustness" of executives' views would require longitudinal research, to assess the stability/rigidity of strategy perspectives over time. This *retest stability* is an interesting avenue for further research, for which the measurement instrument would be a suitable tool, but it is beyond the scope of the current study.

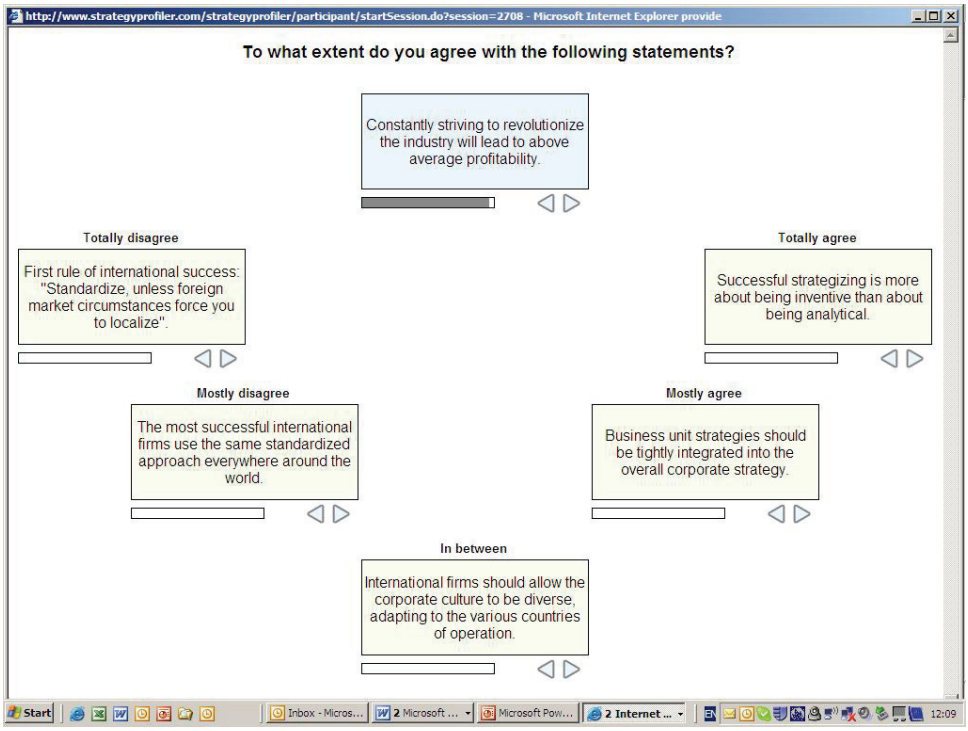
13.3 DESIGN OF THE MEASUREMENT INSTRUMENT

Hence, the measurement instrument should be a quantitative tool for mapping the general strategy preferences of individual executives, which can be directly administered to the executives themselves. For the design of such a psychometric instrument the standards set by the European Federation of Psychologists' Associations (EFPA) have been employed (Bartram, 2002). The following design choices have been made:

- *Number of constructs*. In the previous chapters, 10 dimensions have been identified which can be used to measure the views of executives. Each dimension is based on a tension between two partially conflicting demands, which executives find difficult to pursue simultaneously. It was therefore argued that most people tend to emphasize the pursuit of one demand over the other – they treat the tension as a trade-off. Practically-speaking, it is usually difficult to agree with the arguments on both sides of the 10 dimensions, as they are often mutually-exclusive. Yet, having said this, one can not assume beforehand that if an executive does not agree with the strategy perspective at one side of the dimension, they will automatically agree with the opposite perspective. Therefore, as a precaution, the support for each perspective must be measured separately. So, with 20 potential strategy perspectives with which executives can agree, there are 20 constructs that must be measured. In the next chapter, as part of the analysis of the construct correlation, it will be discussed whether the 20 constructs can actually be collapsed into 10, that coincide with the 10 dimensions outline in the theoretical framework.
- *Construct scale*. A reliable measure for a construct requires 5 or 6 items/statements with which the respondents can agree or disagree. These items should reflect the main characteristics of the strategy perspective in a logically sound manner (which is referred to as the issue of *construct validity;* Hair et al., 2006) and the respondents should react to them in a consistent way (which is referred to as the issue of *internal consistency* or *reliability*). In the previous chapters, 12 potential items were formulated in a theoretically valid manner for each of the 20 constructs. The approach taken has been to reduce these 12 items to 6 in such a way that the reliability test (Cronbach $\alpha > 0.70$) could be met. A description of this process of scale construction will be given in the following section.

- *Scale type.* The most common scale type is the Likert 5-point scale. This scale has also been used here, as there was no reason to diverge from this norm. On the contrary, as most respondents are familiar with a Likert scale, this was seen as an advantage, since respondents can focus on the content of the items, instead of getting accustomed to the scale employed. The stem question used for all items is "Do you agree or disagree with the following statement?", to which the respondents have the following 5 options: "totally disagree", "disagree", "in between", "agree" and "totally agree".

EXHIBIT 13.1
Open card sort response mode via website interface



Note: The top central card (in light blue) is the card at the top of the stack, which needs to be placed in one of the five boxes below. In this example, some cards have already been placed in these boxes. The last card placed in each box remains visible throughout the exercise and the respondent can scroll through the cards in each box using the triangular buttons underneath. All cards can be moved between boxes at will, if the respondent changes his/her mind.

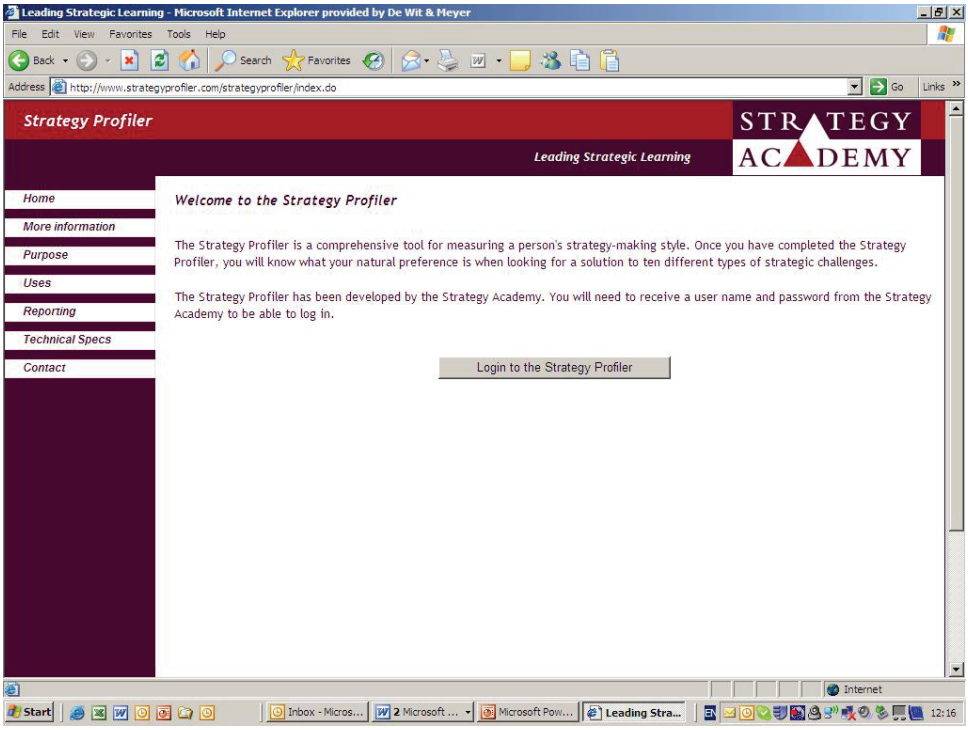
- *Response mode.* The approach to answering the 5 options is referred to as *open card sort*. Instead of presenting respondents with a long, disheartening list of items, behind which they need to tick-the-box, a stack of 120 cards is presented via a web-based computer program, with one item per card (see exhibit 13.1 for a screenshot). The respondent is given the assignment to drop each card into one of five boxes, corresponding with the five Likert-scale options. It is anticipated that this more user-friendly and engaging response mode will ensure a higher response rate. There has been no limit imposed on the number of cards that can be dropped into each box (i.e. "open"), as there is no preconceived

reason why respondents should be limited in the number of items with which they agree or disagree.

- *Administration mode*. All respondents are invited by e-mail to participate in the exercise and are given the correct web address, as well as a password and user name, to ensure that only invitees use the measurement instrument. All invitees are free to complete the exercise whenever they have the time, but within a month of the invitation. All responses are saved on-line in a central database for further analysis. There is no reason to assume that this unsupervised and time-insensitive administration mode will yield a different response than a supervised approach or with the imposition of a strict time limitation.

The web-enabled computer program that has been specifically created to facilitate the measurement of strategy perspectives is called the *Strategy Profiler*. It is accessible via www.strategy-profiler.com (see exhibit 13.2 for a screenshot of the home page). The computer program consists of four main modules, as is also graphically depicted in figure 13.1:

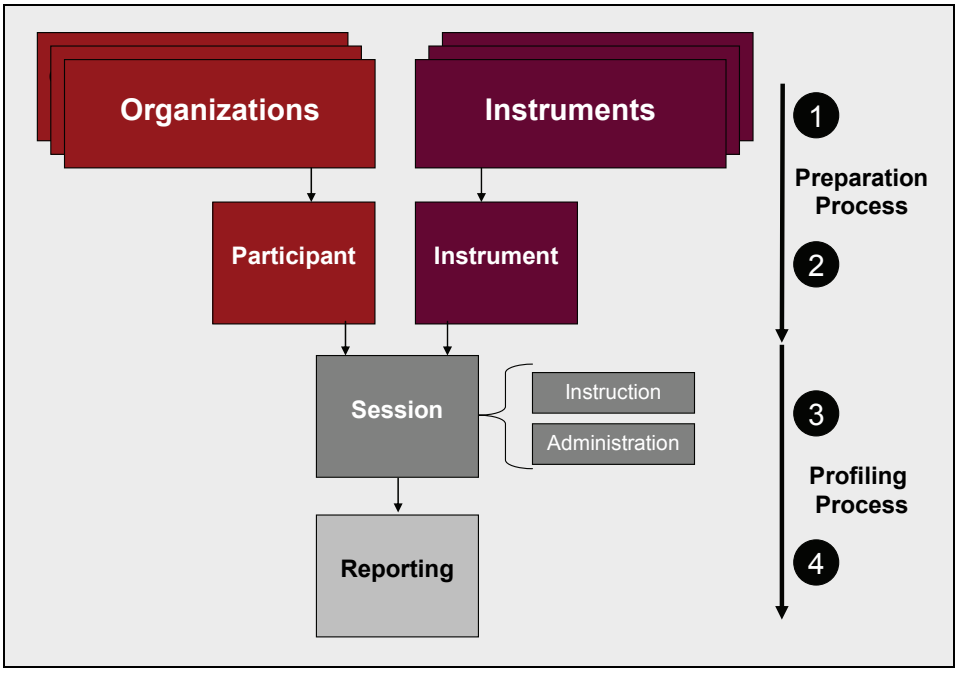
EXHIBIT 13.2
Strategy Profiler website home page



1. *Instrument construction module*. The first building block is the instrument construction module (in dark purple in figure 13.1). In this module, items can be inserted and linked to each other to create scales, while scales can be linked to each other to create instruments. This flexibility of design was required to allow various generations of Strategy Profilers to be developed, as insight was gained into which items and scales were valid and reliable.

2. *Respondent information module*. The second building block is the respondent information module (in red in figure 13.1). Here, all information regarding the respondents is stored, structured by organization to which the respondents belong. The only information required upfront is the name of the individual, their e-mail address and their organization. All other respondent data (see section 13.5 for a description of the personal data collected) is filled out by the respondents themselves during the administration of the exercise.
3. *Session management module*. The third building block is the session management module (dark grey in figure 13.1). Here the administrator can create a session, invite the respondent to participate, give background information about the objectives of the Strategy Profiler, provide instructions about how to proceed and actually administer the exercise. Once each respondent has completed the entire exercise and provided their required personal data, they are notified that they are finished and can exit the application. All data are stored in a common database.
4. *Analysis & reporting module*. The fourth building block is the analysis and reporting module (light grey in figure 13.1). Here the administrator can make use of the data, either to perform specific analyses or to generate standardized reports containing a number of preset analyses. In these 'template' reports the administrator has the option to compare the individual to other individuals or groups using the data in the database. For specific analyses, the data can be downloaded into excel or SPSS, offering a multitude of analysis possibilities.

FIGURE 13.1
Strategy Profiler architecture



The great advantage of having this web-enabled computer program, as opposed to a paper-based survey, has been the ease of use for both respondents and administrator. Respondents have been able to receive the survey instantaneously anywhere around the world, completing it and sending it away again within 30 to 45 minutes. A certain novelty value has also made participating extra enticing. For the administrator it has made the sending out of surveys and the back office work of data entry significantly more efficient. The only important drawback of this technology-solution has been the dependency it creates – if the software fails, the problems are large. The "challenge" this has produced will be described further on in this chapter.

13.4 APPROACH TO SCALE CONSTRUCTION

While it is extremely exciting for a strategic management researcher to venture into the domain of another discipline such as psychometrics, being unfamiliar with the terrain and with the laws of the land requires extra caution. It was, therefore, necessary to take an approach that would compensate for this lack of familiarity and allow for learning and adaptation to take place along the way.

Hence, a rather long process of refinement was employed, moving from broad and exploratory, to more detailed and statistically robust. In the initial phases, the emphasis was on the internal and external validity of the measurement scales – do the items and the scales make theoretical sense (*internal validity*) and are they really measuring what they are intended to measure (*external validity*). In later phases, as it became clearer that the emerging instrument made sense, the emphasis shifted more towards the reliability of the measurement instrument. In the following sections the four main steps in this refinement process will be described.

13.4.1 Theory-Building Phase

As was outlined in chapter 1, the general approach to the construction of a strategy perspective measurement tool has been theory-driven. Unsurprisingly, therefore, the first step in the refinement process has been to develop the theoretical framework of 10 dimensions and 20 perspectives as described in the previous chapters. This development process was started approximately 10 years ago, in close cooperation with Bob de Wit, on the basis of an earlier textbook titled *Strategy – Process, Content, Context: An International Perspective* (De Wit and Meyer, 1994). The first version of this theoretical framework was published as the second edition of the *Strategy* textbook (De Wit and Meyer, 1998). The final, slightly revised, version as described in the previous ten chapters was at the heart of the third edition of *Strategy – Process, Content, Context: An International Perspective* (De Wit and Meyer, 2004).

The advantage of this long incubation period and the framework's dispersion via a widely-used strategic management textbook is that dozens of academic colleagues and management practitioners have responded and commented on its theoretical robustness and practical applicability. This process of feedback and theoretical refinement stretching over a period of a decade will not be described here in detail, but it is important to note that the framework as published in 2004 has received considerable acceptance within the international academic community, judging by the positive reviews gained before and after publication of the text (e.g. Baack, 2005, in the Academy of Management Learning and Education) and the high number of professors and lecturers employing *Strategy* as their main textbook (as of September 2006 there are 182 users registered via the companion website).

Throughout this period, further internal validation of the theoretical framework was sought via conference papers at the Strategic Management Society annual conferences (Meyer, 1998; De Wit and Meyer, 2000, 2004), the Academy of Management annual conferences (Meyer, 2000) and a Strategic Management Society mini-conference specifically organized around the issue of "Plurality, Perspectives and Paradoxes" in Rotterdam in 2002 (Meyer, 2002). Initial external validation was solicited via presentations to business practitioners. During the last ten years, more than 200 presentations have been given in 15 different countries, to review the relevance of the framework vis-à-vis executives understanding of their own perspectives.

13.4.2 Exploratory Phase

The second step in constructing the measurement scales was to move from the general theoretical framework to items or questions that could be used to test executives' perspectives and to see whether executives actually recognized the results. This phase was broadly exploratory for two reasons; first, because it was unclear what the best *format* would be for testing each perspective, and secondly, because of unfamiliarity with the *formulation* of questions, items or statements with which to solicit a response.

Format-wise, there were a number of options. The most important variations that were considered were the following:

- *Cases vs. Items*. Many questionnaires measuring executives' views attempt to describe a managerial situation, to which each respondent is asked to select their preferred action (e.g. Hofstede, 1980; Trompenaars, 1993). These 'mini-cases' often require a few lines of text to explain the situation, and are followed by a number of alternative responses. This was the first approach considered, but rejected. It was anticipated that the advantage of such a format might be the high reality level for executives, who are used to judging a situation and making a choice out of alternatives. However, the disadvantage of such mini-cases is that they require considerable reading time in a very concentrated way, especially if each case has different potential answers. Given the need for approximately 5 to 6 data points per construct, this would require much more than an hour to complete for each respondent, which makes this approach highly impractical. Few respondents would be willing to spend this much time and few would be able to remain concentrated throughout the exercise. Therefore, the main alternative was chosen, which is to present short statements to executives and to ask if they agree or disagree. Given the simple calculation that 20 perspectives require 5 to 6 data points each, this means that 100 to 120 items are required. If each can be read and judged within 30 seconds, the whole survey could be completed within an hour. Items that could be read and judged even faster are then even better. Therefore, an approach was taken to formulate items that were no longer than 25 words.
- *Separate items vs. linked items*. The second issue was whether each item should be judged individually, or whether respondents should be asked to compare items and answer which item they agreed with more. Presenting each item separately was deemed to have the advantage of simplicity and speed, while presenting sets of items for comparison was deemed to be more discriminatory. If people are confronted with a *forced choice,* they have to take a position, whether they want to or not. And since the objective of the measurement instrument is to identify strategy-making preferences, this approach has the advantage of uncovering a person's beliefs more readily. Hence, a choice was made in favor of forced choice. Here, again, there are various options, of which ranking, either/or choice and more/less choice are the most important. In *ranking*, respondents must put

various items in order, from most preferred to least preferred. This was judged too cumbersome for such a large set of items. An *either/or choice* is like a ranking, but with only two items, of which one is most preferred. This was judged too rough-grained. Therefore, the third option was selected, the *more/less choice*, in which the respondent must indicate along a scale between two items whether he/she is more or less inclined towards one or the other statement.

At the same time, formulation-wise it was also unclear what type of items would appeal to executives. Should they be objectively dry or emotionally charged, emphasize the positive of a strategy perspective or touch on the allergies that people might have, use popular language or more scientific descriptions, and be more conceptually formulated or more concrete.

To explore what would work best, a first draft of the Strategy Profiler was made on paper and then peer-reviewed by 5 colleagues. After various revisions, the first Strategy Profiler, with 10 sets of more/less choices was field tested on 155 executives in the period from July 2001 to April 2002 (see exhibit 13.3). The executives who filled out the Strategy Profiler constituted a sample of convenience, as they were all participants in various executive management programs taking place during this period (see table 13.1).

EXHIBIT 13.3
Set-up of original strategy profiler

Firms should engage in thorough strategic analysis and rational problem solving.	1.....2.....3.....4.....5.....6....7	Firms should engage in unorthodox thinking and creative problem solving.
Firms should first formulate strategic plans, then move to disciplined implementation.	1.....2.....3.....4.....5.....6.....7	Firms should gradually shape strategy, through learning and unfolding events.
Firms should push through strategic changes rapidly and dramatically.	1.....2.....3.....4.....5.....6.....7	Firms should keep up a steady pace of moderate changes.
Firms should be driven by market opportunities, developing competences to match.	1.....2.....3.....4.....5.....6.....7	Firms should be driven by their strong competences, developing markets to match.
Firms' business units should be autonomous, only sharing investment funds.	1.....2.....3.....4.....5.....6.....7	Firms' business units should be highly coordinated and share key resources.
Firms should be independent and assertive in their relations with other firms.	1.....2.....3.....4.....5.....6.....7	Firms should be interdependent and cooperative in their relations with others.
Developments in an industry can be strongly shaped by individual firms.	1.....2.....3.....4.....5.....6.....7	Developments in an industry cannot be influenced by individual firms.
Developments in firms can be fully controlled by top management.	1.....2.....3.....4.....5.....6.....7	Developments in firms will be the result of uncontrollable internal dynamics.
International firms should focus on global standardization and integration.	1.....2.....3.....4.....5.....6.....7	International firms should focus on local (national) adaptation and responsiveness.
Firms should primarily focus on earning a profit for the shareholders.	1.....2.....3.....4.....5.....6.....7	Firms should serve the interests of all stakeholders in a balanced manner.

In each group, after filling out the Strategy Profiler form and discussing their results, three additional questions were asked:

1. Did you understand all the statements?

2. Do you recognize the tension between each set of statements?
3. Do you feel that your choice represents your true perspective?

TABLE 13.1
Exploratory phase sample

Group	Program	Period	Number& Level	Country of Origin
Krauthammer International	Strategic Leadership	July 2001 - January 2002	14 Senior Consultants	Netherlands, Britain, France, Germany, Spain, Switzerland, Belgium
Cap Gemini	Strategy Consulting	September 2001 – March 2002	12 Senior Consultants	Netherlands
Bled School of Management	Executive MBA	September 2001	45 Middle & Senior Managers	Slovenia, Croatia, Italy, Hungary, Russia, Poland
Mercuri Urval	In-company MBA	October 2001	23 Middle Managers	Netherlands
FME-CWM	International Strategy	October 2001	16 Export Managers	Netherlands
Jones Lang Lasalle	In-company MBA	November 2001	22 Middle Managers	Britain, Belgium, Netherlands, France, USA
Astra Zeneca	In-company MBA	February 2002	17 Middle Managers	Sweden, Netherlands, Britain, Belgium, Germany
VNU	In-company MBA	April 2002	16 Middle Mangers	Britain, Netherlands, Belgium, France

In this exploratory phase, the responses were not codified or recorded, but an open discussion was pursued to get a rich picture of how the respondents experienced the questionnaire. The major learnings during this phase were the following:

1. *Understanding statements*. Generally, there was a positive reaction to the short and accessible style used for the items. However, various individuals remarked that the English used was a bit too complicated and that some words seemed to be jargon, indicating that more attention would need to go into checking the formulation of the items. The overall conclusion from the feedback was that despite all of the effort to formulate unambiguous items, it is difficult to anticipate how people might "misinterpret" an item and therefore that all items need to be thoroughly field-tested before being adopted.
2. *Recognizing the tension*. The overwhelming majority of respondents indicated that they recognized the tension represented by the two statements. In other words, in terms of external validity, these responses seemed to signal that the Strategy Profiler was measuring along meaningful dimensions. However, there were also quite a few people who indicated that they found it difficult to choose between the two statements, because they agreed with both, either because they did not recognize the tension, or more commonly because they felt that it depended on the circumstances. There were also people who agreed with both, because they felt that the two perspectives could be

reconciled with one another. Some of these individuals circled more than one number on the scale, while others chose the middle position. However, there were other people who chose the middle position because they agreed with neither statements, or didn't know, or agreed a bit with each. In other words, the initial assumption that using a forced choice format would be more advantageous had to be reexamined. If some people felt that the forced choice was not legitimate, this should be a major concern. Furthermore, if circling the middle option could mean different things (i.e. agree with both, disagree with both, and agree a little with both), then the results of the measurement instrument would also be ambiguous. The conclusion from this feedback was that it would be better to drop the forced choice format and move to independent items.

3. *Representing the perspective*. Almost all respondents felt that this simple Strategy Profiler gave them a reasonable picture of their strategy perspective. After a thorough explanation of all of the dimensions and strategy perspectives, most people recognized very clearly why they had selected a particular answer. However, it also became clear how vulnerable a measurement tool is, if it only uses one data point for each dimension. Where people had misunderstood the item (which happen most on the 6^{th}, 7^{th} and 8^{th} dimensions), they were subsequently also likely to circle a response which they later thought to be inappropriate. The conclusion that was drawn from this feedback was that at least 5 to 6 well-tested items would be needed to ensure the "correct" measurement of people's perspectives.

A last learning that should be mentioned was that a paper-based survey approach was extremely inefficient and impractical. Inefficient because creating an overview of a group's score required a lot of manual work, not to mention what it would cost to enter all data into a database. Impractical, because handing out paper forms on the spot created the problem that the participants wanted to take their scores home with them, while it was the intention that all forms were to be handed in for processing and as a matter of record. It was clear that a user-friendly psychometric instrument would have to be more efficient and flexible for respondents and administrators.

13.4.3 Darwinian Phase

The next step in constructing the measurement scales was to move from a 20 item paper-based format to a 120 item web-based system. This required a significant effort in designing, building and testing dedicated software. To avoid reinventing the wheel, contact was sought with an experienced test-builder with a strong interest in designing software systems. This led to the creation of a software version of the Strategy Profiler, as described in section 13.3.

Besides the move to cyberspace, the two most important changes to the scale development approach were the shift to 6 items per construct and the use of 20 independent constructs, hence the need for 120 items in total. However, it was recognized that one major learning from the previous phase was going to be difficult to implement directly – formulating 120 unambiguous and discriminating items. As argued above, avoiding vagueness, imprecision, jargon and complicated English is difficult enough, but it is almost impossible to know upfront how certain items might be open to multiple interpretations.

To deal with this challenge, a two-pronged approach was taken. First, all newly-formulated items were reviewed by a group of 18 academics and executives to identify as many potential faults as possible. Secondly, not the required 120 items were formulated, but 240, so that there would be plenty of room for a "survival of the fittest" approach to arriving at a final set of 120 items.

This Darwinian process was organized in three rounds. First, from March to September 2004 the first batch of 120 items (20 x 6 items) was tested on a sample of 153 individuals. On the basis of the reliability tests and validity checks with respondents (see below) the most promising items were harvested from this batch. Then, from October 2004 until March 2005 the second batch of 120 items was tested on a sample of 182 individuals. Again the reliability scores and validity checks were used to weed out the weaker items. Subsequently, the best items from both batches were added together and from April 2005 until June 2006 data were collected using this third iteration of the Strategy Profiler. A total of 424 individuals were tested using this Strategy Profiler 3.0.

All 759 respondents to the Strategy Profiler received a detailed written report, outlining their strategy perspective preferences, often contrasting them with their colleagues who also filled out the survey. As part of this procedure, 'debriefing meetings' were held with 126 respondents by 4 researchers, primarily intended to discuss their "strategy profile" with them. From a research perspective, however, the objective was to check the external validity of the profiling outcomes. Respondents were asked whether they recognized themselves in the results and where they didn't, their responses to the items were reviewed, to see why. This information was collated and used in interpreting the reliability scores of each scale at each step in the Darwinian process.

13.4.4 Consolidation Phase

Unfortunately, despite all the robustness built into the Darwinian process, not all of the constructs in the Strategy Profiler 3.0 met the reliability threshold of Cronbach $\alpha \geq 0.70$. Actually, of the 20 constructs, only 2 were higher than 0.70, while 9 others were between 0.60 and 0.70 (see table 13.2). After more than two years of testing, this was a rather disappointing result.

There were two potential conclusions that could be drawn from the low reliability scores. On the one hand, it could be that an attempt was being made to measure something that didn't exist. Although a lot of care had been placed on construct validity, it could be that the strategy perspectives did not exist in reality as clearly as was predicted from the theoretical framework. On the other hand, it was also possible that the items formulated were not capturing the strategy perspectives in the correct way.

To check what was going on, a factor analysis was performed on all 120 items in the Strategy Profiler 3.0 set (for a detailed description, see next chapter). What was found was that for quite a few constructs the items loaded on to different factors, indicating that these constructs were actually made up of two or three components, with a relatively weak level of correlation between them. In other words, a number of the constructs had been defined too broadly. This is a common problem in developing a valid and reliable measurement instrument (Kline, 1998).

The general challenge when constructing an instrument is to balance between a construct that is too narrow and one that is too broad. In practice it is very easy to achieve a high level of reliability, by keeping the construct very narrowly defined – the more specific it is, the more all items will be largely identical, leading to a high Cronbach alpha. This is also referred to as a *bloated specific* – being very precise about something insignificant. If a construct is kept extremely simple and does not leave room for recognizing the various aspects of a particular phenomenon, the reliability of a measure will increase, but its relevance will be low and the construct validity will often be rather doubtful. However, at the same time, the opposite danger is also lurking – *the ill-defined construct*. If a construct is defined too broadly, sweeping together a number of phenomena that might be theoretically related, but in practice are not tightly-linked, then the reliability of the instrument will suffer;

the broader the construct, the more heterogeneity within its boundaries, the lower the reliability. So, while a broader construct often has the appeal of explaining more of reality and being more useful, this validity and relevance comes at a price.

TABLE 13.2
Reliability Scores Strategy Profilers 1-3*

Strategy Perspective	Version 1.0 α N = 153	Version 2.0 α N = 182	Version 3.0 α N = 385**
Rational Reasoning (Logic)	**0.70**	0.58	0.68
Generative Reasoning (Creativity)	0.40	0.38	0.51
Strategic Planning (Deliberateness)	0.69	0.68	**0.77**
Strategic Incrementalism (Emergence)	0.41	0.58	0.51
Discontinuous Renewal (Revolution)	0.57	0.50	0.63
Continuous Renewal (Evolution)	0.64	0.54	0.69
Outside-In (Markets)	0.21	0.29	0.47
Inside-Out (Resources)	0.56	0.28	0.55
Portfolio Org (Responsiveness)	0.62	0.51	0.61
Integrated Organization (Synergy)	0.53	0.59	0.59
Discrete Organization (Competition)	0.48	0.51	0.51
Embedded Organization (Cooperation)	0.48	0.46	0.55
Industry Dynamics (Compliance)	0.36	0.42	0.38
Industry Leadership (Choice)	0.16	0.50	0.47
Organizational Leadership (Control)	0.58	0.69	0.66
Organizational Dynamics (Chaos)	0.25	0.39	0.65
Global Convergence (Globalization)	0.61	0.53	0.60
International Diversity (Localization)	0.54	0.36	0.62
Shareholder Value (Profitability)	0.69	0.69	**0.71**
Stakeholder Values (Responsibility)	0.66	0.68	0.60

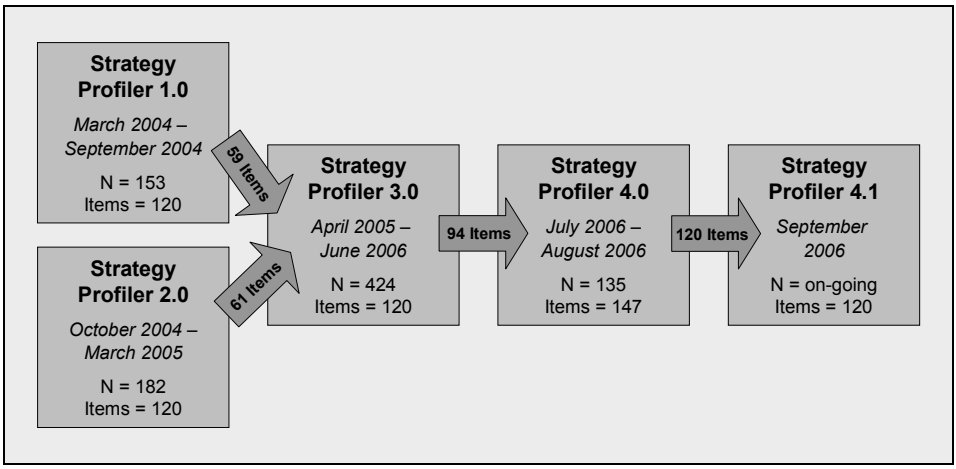
* The darkest boxes are scores >0.70; the medium dark boxes are scores between 0.60 and 0.70.
** Of the 424 respondents, 39 were filtered out for the analyses (see section 13.5)

In the case of the Strategy Profiler, the factor analysis made clear that in balancing between narrow and broad constructs, the theoretical framework had leaned too far over to the side of broadness. In defining the strategy perspectives, the approach had been too

comprehensive and inclusive, attempting to cover too many views with one heading. In striving to reduce the complexity of strategy beliefs to 20 main perspectives, still too many differences had been lumped together. Obviously, when it comes to strategy beliefs, there is even more heterogeneity than the 20 strategy perspectives described in the theoretical framework.

Unavoidably, this meant that an upgraded Strategy Profiler needed to be created. There were two ways to bring the reliability of this instrument to the desired level; perspectives could be split into a larger number of detailed ones, or the existing 20 could be more tightly defined. While it would have been possible to split some perspectives in two, leading to 25 or 30 strategy perspectives, a choice was made to stay with the existing 20 and ensure that they were more strictly delineated. This choice was based on a thorough analysis of the 'dissident' items that would have formed the core of a separate perspective. It was judged that the different beliefs that had been lumped into the 20 strategy perspectives were not fundamental enough to warrant an expansion of the measurement instrument at this moment (see the next chapter for a detailed discussion per construct). This does not mean that the current measurement instrument is totally comprehensive – new strategy dimensions and perspectives can be added in future – but only that the current 20 perspectives do cover the most fundamental differences in strategy beliefs found in the management literature.

FIGURE 13.2
Development steps of the Strategy Profiler



For the last major iteration of the measurement instrument, the Strategy Profiler 4.0, a total of 53 new items were created and added to 94 existing items, leading to a total set of 147 items. This strange amount was due to the fact that again a bit Darwinism was built into the testing process. For construct scales were there was little worry only 6 items were included, but for scales that had been thoroughly revised, 7 or 8 items were incorporated, to allow for some pruning along the way. To speed up this final phase of instrument development, it was decided to avoid the lengthy process of acquiring respondents from a broad range of organizations, as was done for the first three Strategy Profilers. Instead, during the summer of 2006 a group of 261 managers from one international company, Bank ABC, were asked to fill out the Strategy Profiler. This resulted in a group of 135 respondents who found time during the summer, which was sufficient to ascertain the reliability of the instrument. These

scores were also used to reduce the final set of items of the Strategy Profiler 4.1 to 120 (see figure 13.2).

13.5 APPROACH TO SAMPLE SELECTION AND DATA COLLECTION

Building a 'general purpose' psychometric tool requires a totally different approach to sample selection than when testing hypotheses. In the latter case, it is extremely important to narrowly define the sample group, to ensure a high level of homogeneity among the respondents. The more similar the respondents on all characteristics except those being studied, the easier it is to 'isolate' the specific correlation between the independent and dependent variables. In the case of developing a general psychometric tool, this precision in sample selection is not required. However, it is necessary that the sample group is broadly representative of the group for which the measurement tool is later intended and that there is no systematic bias that might color the presumed usefulness of the instrument.

As this tool is intended to measure the strategy perspectives of a wide variety of business executives, it was seen as important from the outset to have a heterogeneous respondent group, largely made up of executives. This meant that focusing on the more easily accessible MBA students was not seen as an option, but rather that hundreds of executives needed to be found that would be willing to invest their time and energy in filling out the Strategy Profiler. Ideally, these executives would be as diverse as possible, not only to avoid a systematic bias in the responses, but also to test whether the instrument was understandable and useful to a broad range of executives. A number of dimensions along which diversity was sought were nationality, industry, organization, functional area and organizational level.

The approach used to achieve such sample diversity, while also having some motivational factor to get the executives to fill out the Strategy Profiler in a serious way, was to make the instrument a mandatory prerequisite for many of the executive training programs run by Strategy Academy during the last few years. This approach has led to 759 respondents to the first 3 versions of the Strategy Profiler. As can be seen in table 13.3, the harvest of this method has been a richly diverse group, ideally suited to the objective of instrument testing. As was mentioned earlier, the Strategy Profiler 4.0 was also tested on a diverse sample of executives, but all from one company, Bank ABC, to speed up the development process.

13.5.1 Improving Response Rate

To get the highest possible response rate, making the Strategy Profiler a mandatory part of an executive training program was a useful tactic. Although compulsory, the training participants did not feel forced into 'filling out a survey', as the Strategy Profiler was seen as a very useful introduction into the training course for which they had chosen. To make the 'bait' even more attractive, all participants in the Strategy Profiler process were promised (and given) a 24-page personalized report, containing an analysis of their strategy profile. To avoid potential worries that their responses could be used for grading or assessment purposes, it was made very explicit that all data would be treated anonymously and that the personalized reports would only be sent to the respondents themselves.

To make the entire process as convenient as possible, all participants were invited by email and only needed to click on the link to get to the appropriate webpage of the Strategy Profiler. This specific invitation was usually preceded by a personal email from the lecturer explaining what the strategy training was intended achieve and how the Strategy Profiler was a necessary preparation for the program. All respondents were given a month to complete the profiler, but if they had not completed it after 3 weeks, a reminder was sent to them.

TABLE 13.3
Strategy Profiler Respondents

Characteristics	Version 1.0 N = 153	Version 2.0 N = 182	Version 3.0 N = 424	Version 4.0 N = 135
Organizations	16	64	168	1
Industry Categories	9	14	18	1
Nationalities	11	15	20	9
Non-Dutch *(%)*	80 *(52%)*	99 *(54%)*	286 *(67%)*	124 *(92%)*
Females *(%)*	47 *(31%)*	44 *(24%)*	99 *(23%)*	51 *(38%)*
Non-students *(%)*	128 *(84%)*	180 *(99%)*	384 *(91%)*	135 *(100%)*
≥ 10 Years Manager *(%)*	39 *(25%)*	52 *(29%)*	79 *(19%)*	27 *(20%)*
Marketing / Sales *(%)*	12 *(8%)*	29 *(16%)*	68 *(16%)*	31 *(23%)*
Operations / Logistics *(%)*	10 *(7%)*	14 *(8%)*	18 *(4%)*	41 *(30%)*
Finance *(%)*	16 *(10%)*	20 *(11%)*	71 *(17%)*	27 *(20%)*
General Management *(%)*	11 *(7%)*	71 *(39%)*	56 *(13%)*	7 *(5%)*
Other Function *(%)*	69 *(45%)*	46 *(25%)*	92 *(22%)*	29 *(21%)*

The result has been that approximately 85% of all the executives invited to participate in the Strategy Profiler have also done so (424 of the 508 invitees). The executives who have failed to fill out the Strategy Profiler have almost all given a lack of time as reason, which does not suggest any systematic bias. For the Strategy Profiler 4.0 the response rate was much lower (52%), as 261 people were contacted to participate without any directly linked management development program. These people were all past participants in a course and were asked to fill out the Strategy Profiler 4.0 on the basis of goodwill and with the incentive of an individual report. Given the date of receiving the invitation to participate (mid-July) and the deadline (end of August) the response rate was actually very good. There also didn't seem to be a bias among the non-respondents, except lack of time.

13.5.2 Ensuring Response Quality

It is not only important to get participants to fill out the instrument, but it is also essential that they actually spend time and energy to do a thorough job. This is particularly important given the fact that the Strategy Profiler has 120 items, which means that participants have to stay concentrated during a period of 30 to 45 minutes.

Naturally, the best way to get high response quality is to make the instrument so interesting that remaining concentrated is easy. The web-based approach, the card-sort interface and the stimulating items are all intended to achieve this objective. Promising participants a personalized strategy profile report has also been intended to motivate them to do a good job, so as to get a meaningful result for themselves.

Yet, just in case some participants were not really motivated and filled out the answers at random, or lost their concentration somewhere during the profiling process, two types of 'consistency tests' were developed and applied to identify the qualitatively poor responses:

- *Inter-item consistency tests*. Some of the items used in the instrument are the absolute opposites of one another. If a participant agrees with one of the items, it is logically-inconsistent to also agree with the opposite. Therefore, one would expect someone who scores a '5' (fully agree) on the one item, to score a '1' (fully disagree), and vice versa. If respondents are given a lot of leeway in responding 'consistently', most combinations would be allowed, except 1-1, 1-2, 4-5 and 5-5. If someone scores a '4' on the one item and a '5' on the other, they are being extremely logically-inconsistent. Given the background of the respondents, it seems unlikely that such inconsistence is due to a lack of reasoning skills and therefore it must be concluded that they were incapable or unwilling to use their reasoning capabilities when engaged in the Strategy Profiler. In total 4 pairs of items were used for the inter-item consistency test (items 3.9 and 4.9; 5.1 and 6.1; 5.2 and 6.2; and 11.12 and 12.12) and each inconsistency resulted in one point.
- *Intra-scale consistency tests*. The second check for measuring inconsistency was to calculate how inconsistent each person responded to the items of one scale. If the scale is reliable, yet the individual's response to the six items is highly inconsistent, then this is further proof that this person seems to be answering 'at random' or at least is not trying to be well-reasoned. This intra-scale inconsistency was measured by looking at the standard deviation on the 3 most reliable scales (rational reasoning, strategic planning and shareholder value). Any person scoring higher than twice the standard deviation was considered inconsistent. These people were given one point per inconsistency.

Any of participants who had 2 or more points in these tests was filtered out of the responses before further analyses were performed This procedure was only carried out from Strategy Profiler 3.0 and further. In the 3.0 version 39 respondents were deleted in this way (9%), while in the 4.0 version 8 respondents were dropped (6%).

A final way in which the response quality was protected was to ensure that the strategy course taught to the executives by a member of the Strategy Academy did not bias their answers. This was achieved simply by conducting all Strategy Profiling sessions in advance to the strategy training programs. In the case of the Bank ABC respondents, their previous course was not on the topic of strategy.

13.5.3 Additional Data Collected

Anticipating that it would be extremely valuable to correlate strategy perspective scores with personal attributes in later research, a module was added to the Strategy Profiler to collect this data. The difficulty was that without hypotheses, it is extremely difficult to determine which types of personal attributes might be of importance. Yet, in this research no hypotheses have been formulated, as there is very little literature describing strategy perspectives, let alone suggesting factors that might be an influence on which strategy perspective executives embrace.

Therefore, a choice was made to select a number of very general attributes, with which a first exploratory scan could be made of the potential factors impacting strategy beliefs. Four categories of attributes were selected; demographic, positional, experiential and organizational (see table 13.4). All of these attributes are highly objective and could be recorded by means of a closed answer format, which made the data coding much simpler.

More subjective and complex personal attributes (e.g. personality type, IQ, interest in strategy, political preference, leadership style and salary) were left out of the data collection.

TABLE 13.4
Personal Attributes Recorded

Category	Attribute	Answers
Demographic	Gender	Male - Female
	Age	Linear
	Nationality	All countries
	Education Level	Primary, Secondary, Bachelors, Masters, Doctorate
	Education Area	Law, Social Sciences, Engineering, Business Studies, Economics, Computing Science, Mathematics, Philosophy/Religion, Education, Biology/Chemistry/Physics, Languages, Medicine/Nursing, Other
Positional	Function	Not Employed, Student, Professor/Trainer, Consultant, Specialist/Staff, Manager, Executive Director, Non-Executive Director
	Sub-Function	Unit of < 10 employees, Unit of 10 - 49 employees, Unit of 50 -99 employees, Unit of 100 – 499 employees, Unit of 500 – 999 employees, Unit of 1000 – 9999 employees, Other top management position
	Functional Area	General Management, Human Resources, Marketing, Operations/Logistics, Information Management, Finance, Research/Development, Procurement, Sales, Strategy, Other Staff Function, Other
Experiential	Functional Area Experience	< 1 year, 1 -3 years, 4 – 9 years, 10 – 19 years, 20 – 29 years, 30 – 39 years, > 40 years
	Most Experienced Functional Area	General Management, Human Resources, Marketing, Operations/Logistics, Information Management, Finance, Research/Development, Procurement, Sales, Strategy, Other Staff Function, Other
	Years at Organization	< 1 year, 1 -3 years, 4 – 9 years, 10 – 19 years, 20 – 29 years, 30 – 39 years, > 40 years
	Working Experience	< 1 year, 1 -3 years, 4 – 9 years, 10 – 19 years, 20 – 29 years, 30 – 39 years, > 40 years
	Management Experience	< 1 year, 1 -3 years, 4 – 9 years, 10 – 19 years, 20 – 29 years, 30 – 39 years, > 40 years
Organizational	Employer	All companies
	Industry	Agriculture, Oil/Mining/Gas, Chemicals/Materials, Pharmaceuticals, Construction/Infrastructure, Industrial and Professional Goods, Durable Consumer Goods, Fast-Moving Consumer Goods, Media and Software, Trade and Retail, Transportation and Distribution, Utilities and Telecom Services, Education, Government, Health Care Services, Financial Services, Professional Services, Tourism, Other Business Services, Other Consumer Services, Other
	Number of Employees	< 10 employees, 10 - 49 employees, 50 -99 employees, 100 – 499 employees, 500 – 999 employees, 1000 – 9999 employees, 10,000 – 99,000 employees, > 100,000 employees

To ensure that people would not be discouraged by the need to first give all of their personal information before being allowed to start with the Strategy Profiler, this module was placed at the end of the session. Once participants complete the sorting of all the cards, they need to complete all of the personal information before they can save and exit the session. The 'threat' of having sorted all of the cards 'for nothing' gives an extra motivation for those participants who would otherwise not be very enthusiastic to fill out the last few questions.

Chapter 14

CONSTRUCTING THE MEASUREMENT SCALES

14.1 INTRODUCTION

While in the previous chapter the overall architecture of the instrument development was described, in this chapter the construction is taken to hand. The task is the hands-on work of crafting the measurement scales that make up the instrument, going into the details of reliability scores, inter-item correlations and item selection. The approach taken is to balance comprehensiveness and readability. One the one hand, it is important to specify the steps that have been taken to arrive at the final measurement scales, explaining the reasoning and precautions that have been taken. On the other hand, it is the intention to remain intelligible and accessible to the interested reader. Winston Churchill's famous quip that "this report by its very volume guards itself against the threat of being read" should not be applicable to this book.

To make reading easier, the structure of this chapter will follow the order in which the theoretical constructs were presented in the previous chapters. In section 14.2 each of the 20 scales will be reviewed and evaluated, with a focus on reaching an adequate level of reliability. Then in section 14.3 the correlation between the scales will be examined, to check whether they are sufficiently independent. This will be complemented by a factor analysis across all items, not only to confirm the separate nature of each scale, but also to see whether each pair of opposite scales can be collapsed into a 'composite' scale. Finally, a cluster analysis will be presented to see whether there are recurrent profiles across all of the scales, pointing towards more fundamental "strategy types". This analysis of clusters of strategy perspectives will be presented in section 14.4.

14.2 CONSTRUCTING THE STRATEGY PERSPECTIVE SCALES

In the theoretical framework a total of 20 strategy perspectives were described and each was concluded with a set of 12 matching items, making a total of 240. Of these, the first 6 of every set were used in the Strategy Profiler 1.0 (20 x 6 = 120 in total), while the second 6 of each set were used in the Strategy Profiler 2.0. The intention of this procedure was to

evaluate the quality of the items and to merge the best ones into the Strategy Profiler 3.0. This evaluation was based on four complementary elements:

1. *Scale reliability*. First, the Cronbach alpha of the set of items was calculated and it was assessed whether dropping any items would increase the scale reliability.
2. *Inter-item correlations*. A second valuable piece of information was provided by the inter-item correlation coefficients, indicating which items had a high level of correlation.
3. *Mean and standard deviation per item*. Items with a low standard deviation were also deemed to be less valuable to scale construction as they are less discriminant. This low deviation was usually linked to an extremely high or low mean, indicating that the item was too universally popular or unattractive to be sufficiently differentiating.
4. *Debriefing session feedback*. Finally, to understand why some items were not showing the level of correlation expected, the feedback from the 126 debriefing sessions was used. This qualitative feedback from the participants (see section 13.4.3 for a description of the procedure) helped to clarify how the items were being interpreted.

The items in the Strategy Profiler 3.0 were again tested and reviewed using the above elements. Furthermore, a factor analysis was performed to assess whether all items loaded on to the same factors as expected (see section 14.3.2 for a detailed description). This information about each item and set of items was used to select 94 items that were kept in the Strategy Profiler 4.0. To this group a further 53 new items were added and assessed a last time. These 147 items were finally reduced to a set of 120 items (Strategy Profiler 4.1) with a satisfactory reliability score.

In the following pages this five step process will be cycled through 20 times, to explain how each of the scales was finally constructed. Each section starts with three overview tables, in which the results of the Strategy Profiler 1.0, 2.0 and 3.0 for each specific scale have been summarized. After these three tables, the development process is reviewed and changes to the Strategy Profiler 4.0 are discussed. To keep this entire compact, the tables have not been numbered. All item numbers in the tables correspond with those in the theory chapters.

14.2.1 Rational Reasoning Perspective: Scale 1

N = 153 ***α = 0,70***	**Mean**	**SD**	**Inter-item correlations Strategy Profiler 1.0**						**Evaluation**
			Item 1.1	Item 1.2	Item 1.3	Item 1.4	Item 1.5	Item 1.6	Alpha is sufficient; 1.2 and 1.4 have the highest correlation coefficient; 1.1 also correlates significantly with them.
Item 1.1	3,49	,91	1,000	,294	,256	,318	,285	,329	
Item 1.2	3,64	1,06	,294	1,000	,077	,430	,343	,077	Items 1.3 and 1.6 have a high mean, indicating less discrimination; 1.5 a low mean.
Item 1.3	4,24	,80	,256	,077	1,000	,262	,237	,368	
Item 1.4	3,45	1,03	,318	,430	,262	1,000	,380	,218	Dropped items focus too much on objectivity and scientific approach, as opposed to rationality.
Item 1.5	2,88	1,02	,285	,343	,237	,380	1,000	,340	
Item 1.6	3,70	,93	,329	,077	,368	,218	,340	1,000	***Retained: 1.1, 1.2 and 1.4***

N = 182 ***α = 0,58***	**Mean**	**SD**	**Inter-item correlations Strategy Profiler 2.0**						**Evaluation**
			Item 1.7	Item 1.8	Item 1.9	Item 1.10	Item 1.11	Item 1.12	Alpha too low; 1.7 and 1.8 have the highest correlation coefficient; 1.11 also correlates significantly with this set.
Item 1.7	3,25	1,03	1,000	,380	,096	,140	,350	,222	Items 1.9 and 1.10 have low correlation coefficients; 1.12 is acceptable.
Item 1.8	3,61	1,01	,380	1,000	,055	,181	,247	,279	
Item 1.9	3,76	,99	,096	,055	1,000	,181	,154	,020	Dropped items focus too much on evaluation and information gathering, as opposed to rationality.
Item 1.10	3,40	1,11	,140	,181	,181	1,000	,183	,044	
Item 1.11	3,36	1,22	,350	,247	,154	,183	1,000	,253	
Item 1.12	3,34	1,11	,222	,279	,020	,044	,253	1,000	***Retained: 1.7, 1.8 and 1.11***

N = 385 ***α = 0,68***	**Mean**	**SD**	**Inter-item correlations Strategy Profiler 3.0**						**Evaluation**
			Item 1.1	Item 1.2	Item 1.4	Item 1.7	Item 1.8	Item 1.11	No improvement to the alpha; all items correlate significantly; item 1.11 has the lowest coefficients.
Item 1.1	3,35	,97	1,000	,370	,272	,286	,205	,195	
Item 1.2	3,65	1,01	,370	1,000	,392	,341	,223	,175	
Item 1.4	3,33	1,01	,272	,392	1,000	,399	,303	,333	
Item 1.7	3,39	1,07	,286	,341	,399	1,000	,194	,208	
Item 1.8	3,79	,99	,205	,223	,303	,194	1,000	,121	
Item 1.11	3,57	1,17	,195	,175	,333	,208	,121	1,000	***Retained: All except 1.11***

Although the rational reasoning scale scored an alpha of 0.70 in the Strategy Profiler 1.0, the construct still seemed a bit too broadly defined. Elements such as objectivity, scientific approach, information gathering and thorough evaluation seem to be closely associated with this perspective, given the reasonably high reliability scores, but are not at the heart of the construct. The actual core is the preeminence of *rationality* and an *analytical approach*. Therefore, one new item was formulated, to be inserted into the Strategy Profiler 4.0. It was anticipated that by focusing on the core concept and using a challenging formulation this item should add both to reliability and discrimination.

Item 1.13	The best strategists are more analytical than creative.

The scores of the Strategy Profiler 4.0 can be found below. With an alpha of 0,69 this scale seems to be very consistent, despite all variations tried out. The new item 1.13 does not contribute to a higher overall reliability (dropping it would push the reliability up marginally to 0,70) but it does load nicely on to the same factor as many of the other items, making it a valuable item for a composite scale (see section 14.3.2). Therefore it will be included with all others in the Strategy Profiler 4.1.

N = 127 ***α = 0,69***	**Mean**	**SD**	**Inter-item correlations Strategy Profiler 4.0**						**Evaluation**
			Item 1.1	Item 1.2	Item 1.4	Item 1.7	Item 1.8	Item 1.13	Alpha is satisfactory. All items contribute to reliability except item 1.13. Without this item the reliability goes to 0,70.
Item 1.1	3,67	,86	1,000	,404	,218	,257	,162	,239	
Item 1.2	3,94	,94	,404	1,000	,469	,280	,185	,083	Still, 1.13 loads on to the same factor with 1.7 and many others from scale 2, and will therefore be retained.
Item 1.4	3,54	,83	,218	,469	1,000	,433	,379	,098	
Item 1.7	3,82	,98	,257	,280	,433	1,000	,383	,297	***Scale Accepted***
Item 1.8	4,03	,93	,162	,185	,379	,383	1,000	,144	***Retained: All***
Item 1.13	2,83	,87	,239	,083	,098	,297	,144	1,000	

14.2.2 Generative Reasoning Perspective: Scale 2

N = 153 *α = 0,40*	Mean	SD	Inter-item correlations Strategy Profiler 1.0						Evaluation
			Item 2.1	Item 2.2	Item 2.3	Item 2.4	Item 2.5	Item 2.6	
Item 2.1	2,90	1,06	1,000	,257	,085	,258	,082	,218	Alpha is low; 2.1, 2.2 and 2.4 have the highest correlation coefficients; these are also the natural opposites of the items in the rational reasoning set. Item 2.3 has a low mean, while 2.5 has low correlation coefficients. Dropped items focus too much on subjectivity and experience, as opposed to creativity. ***Retained: 2.1, 2.2 and 2.4***
Item 2.2	4,05	1,01	,257	1,000	-,190	,256	,104	,248	
Item 2.3	2,66	1,13	,085	-,190	1,000	-,114	-,089	,061	
Item 2.4	2,98	1,17	,258	,256	-,114	1,000	-,003	,137	
Item 2.5	3,53	,79	,082	,104	-,089	-,003	1,000	,182	
Item 2.6	3,15	1,12	,218	,248	,061	,137	,182	1,000	

N = 182 *α = 0,38*	Mean	SD	Inter-item correlations Strategy Profiler 2.0						Evaluation
			Item 2.7	Item 2.8	Item 2.9	Item 2.10	Item 2.11	Item 2.12	
Item 2.7	4,02	,97	1,000	,025	,080	,012	,117	,013	Alpha also low; items 2.10 and 2.12 need to be dropped, due to high mean and low SD, leaving 2.8 and 2.11 with the highest correlation coefficient. Items 2.7 has low coefficient with above items; 2.9 is acceptable. Dropped items focus too much on vision and overcoming existing opinions as opposed to creativity. ***Retained: 2.8, 2.9 and 2.11***
Item 2.8	3,87	1,01	,025	1,000	,113	,363	,207	,172	
Item 2.9	3,76	1,03	,080	,113	1,000	,006	,248	-,030	
Item 2.10	4,02	,89	,012	,363	,006	1,000	,172	-,060	
Item 2.11	4,04	1,03	,117	,207	,248	,172	1,000	,126	
Item 2.12	4,47	,69	,013	,172	-,030	-,060	,126	1,000	

N = 385 *α = 0,51*	Mean	SD	Inter-item correlations Strategy Profiler 3.0						Evaluation
			Item 2.1	Item 2.2	Item 2.4	Item 2.8	Item 2.9	Item 2.11	
Item 2.1	3,17	,99	1,000	,166	,193	,138	-,020	,184	Little improvement to the alpha; only 2.2 and 2.11 have a high correlation coefficient. These two focus on creativity. Items 2.8 and 2.9 have low correlation coefficients, and therefore need to be dropped. ***Retained: All except 2.8 and 2.9***
Item 2.2	3,99	,89	,166	1,000	,208	,003	,060	,354	
Item 2.4	3,13	1,06	,193	,208	1,000	,193	-,011	,167	
Item 2.8	3,62	1,04	,138	,003	,193	1,000	,172	,109	
Item 2.9	3,57	1,17	-,020	,060	-,011	,172	1,000	-,040	
Item 2.11	3,95	1,03	,184	,354	,167	,109	-,040	1,000	

With an alpha of only 0.51, this scale was still too widely defined. From the feedback of participants it became clear that this was due to the ambiguous nature of creativity, imagination and vision. Most people seem to have a shared notion of what should be understood as analytical or logical, but creative and imaginative have more scope to be understood differently. At the same time, elements such as subjectivity, experienced-based, visioning and challenging existing beliefs all seem to be somewhat associated with this perspective, but they are not at the heart of the perspective and there is even more room for interpreting them differently.

The conclusion was that a tighter focus on the core concepts of *creativity, originality* and *inventiveness* is required. Therefore, the following three items were formulated, to be inserted into the Strategy Profiler 4.0, bringing the total to 7, leaving some room for trial and error:

Item 2.13	The best strategists are more creative than analytical.
Item 2.14	In making strategy, original ideas are more important than the cold facts.
Item 2.15	Successful strategizing is more about being inventive than about being analytical.

The scores of the Strategy Profiler 4.0 can be found below. With an alpha of 0,77 this scale is now satisfactory. Furthermore, in the factor analysis all items except 2.4 now load on to the same factor, indicating that the refocusing of the construct has been successful. As deletion of item 2.4 has no negative influence on the alpha, this item will no longer be included in the Strategy Profiler 4.1.

N = 127 ***α = 0,77***	**Mean**	**SD**	**Inter-item correlations Strategy Profiler 4.0**							**Evaluation**
			Item 2.1	Item 2.2	Item 2.4	Item 2.11	Item 2.13	Item 2.14	Item 2.15	Alpha is very satisfactory. All new items have high correlation coefficients with other items.
Item 2.1	3,18	1,04	1,000	,315	,234	,198	,336	,274	,324	
Item 2.2	3,94	,90	,315	1,000	,226	,553	,336	,325	,370	Deleting item 2.4 has no effect on reliability, but as it loads on to a different factor, it will be deleted.
Item 2.4	2,72	1,09	,234	,226	1,000	,296	,220	,191	,329	
Item 2.11	4,10	,95	,198	,553	,296	1,000	,230	,258	,439	
Item 2.13	3,24	1,12	,336	,336	,220	,230	1,000	,421	,572	
Item 2.14	2,94	1,10	,274	,325	,191	,258	,421	1,000	,513	***Scale Accepted***
Item 2.15	3,15	1,05	,324	,370	,329	,439	,572	,513	1,000	***Retained: All except 2.4***

14.2.3 Strategic Planning Perspective: Scale 3

N = 153 ***α = 0,69***	**Mean**	**SD**	**Inter-item correlations Strategy Profiler 1.0**						**Evaluation**
			Item 3.1	Item 3.2	Item 3.3	Item 3.4	Item 3.5	Item 3.6	Alpha is almost sufficient; all items have high correlation coefficients, except item 3.6. The second lowest is 3.5, which also has a low mean. Third lowest is 3.1.
Item 3.1	3,83	1,01	1,000	,305	,603	,390	,268	,217	
Item 3.2	4,04	,94	,305	1,000	,510	,426	,199	,027	Item 3.6 focuses too much on internal consistency, as opposed to planning and thinking ahead. Item 3.5 is too ambiguous.
Item 3.3	4,25	,84	,603	,510	1,000	,500	,297	,022	
Item 3.4	4,36	,72	,390	,426	,500	1,000	,232	,135	
Item 3.5	2,82	1,09	,268	,199	,297	,232	1,000	,050	
Item 3.6	4,34	,77	,217	,027	,022	,135	,050	1,000	***Retained: 3.2, 3.3 and 3.4***

N = 182 ***α = 0,68***	**Mean**	**SD**	**Inter-item correlations Strategy Profiler 2.0**						**Evaluation**
			Item 3.7	Item 3.8	Item 3.9	Item 3.10	Item 3.11	Item 3.12	Alpha again almost sufficient; items 3.10 and 3.11 have highest correlation coefficient. Item 3.9 fits well with this set.
Item 3.7	3,58	1,04	1,000	,099	,412	,207	,334	,242	
Item 3.8	3,77	1,08	,099	1,000	,137	,036	,144	,181	Item 3.8 has low coefficients, while 3.7 and 3.12 are acceptable.
Item 3.9	3,34	1,05	,412	,137	1,000	,400	,377	,345	Item 3.8 focuses on the threat of ad hoc management to justify strategic planning, which is not universally shared.
Item 3.10	3,21	1,10	,207	,036	,400	1,000	,474	,140	
Item 3.11	3,42	1,12	,334	,144	,377	,474	1,000	,127	
Item 3.12	4,22	,86	,242	,181	,345	,140	,127	1,000	***Retained: 3.9, 3.10 and 3.11***

N = 385 *α = 0,77*	Mean	SD	Inter-item correlations Strategy Profiler 3.0						Evaluation
			Item 3.2	Item 3.3	Item 3.4	Item 3.9	Item 3.10	Item 3.11	
Item 3.2	3,84	1,00	1,000	,379	,363	,271	,332	,388	Alpha meets criterion. All items significantly correlated; none can be dropped without lowering the alpha.
Item 3.3	4,22	,82	,379	1,000	,387	,282	,276	,410	
Item 3.4	4,19	,73	,363	,387	1,000	,189	,234	,316	
Item 3.9	3,55	1,06	,271	,282	,189	1,000	,515	,548	
Item 3.10	3,37	1,11	,332	,276	,234	,515	1,000	,542	***Scale Accepted***
Item 3.11	3,56	1,06	,388	,410	,316	,548	,542	1,000	***Retained: All***

Of all of the scales, this one was defined the most clearly from the outset. At the center of the construct is the notion of looking ahead and detailed planning of activities and investments. Concepts associated with strategic planning, such as avoiding ad hoc management and creating internal consistency, are linked, but not strongly enough. The conclusion was that this scale did not need to be changed for the Strategy Profiler 4.0.

In this 'retest' it again did well, although this time around item 3.4 did not contribute to the reliability. Dropping item 3.4 actually improves the reliability from an alpha of 0,68 to 0,73. Moreover, in the factor analysis item 3.4 loads on to a different factor this time. The conclusion for the Strategy Profiler 4.1 is that item 3.4 will be left in provisionally, with the possibility of dropping it as a broader group of respondents have completed the instrument.

N = 127 *α = 0,68*	Mean	SD	Inter-item correlations Strategy Profiler 4.0						Evaluation
			Item 3.2	Item 3.3	Item 3.4	Item 3.9	Item 3.10	Item 3.11	
Item 3.2	4,05	,78	1,000	,098	,043	,262	,363	,277	With item 3.4 included the alpha is 0,68, but if this item is dropped then the alpha goes to 0,73. Item 3.4 also loads on to a different factor.
Item 3.3	4,39	,69	,098	1,000	,249	,305	,345	,297	
Item 3.4	4,33	,71	,043	,249	1,000	-,017	-,005	,096	
Item 3.9	3,89	,88	,262	,305	-,017	1,000	,532	,437	
Item 3.10	3,54	1,04	,363	,345	-,005	,532	1,000	,459	***Scale Accepted***
Item 3.11	3,69	,96	,277	,297	,096	,437	,459	1,000	***Retained: All (3.4 provisionally)***

14.2.4 Strategic Incrementalism Perspective: Scale 4

N = 153 *α = 0,41*	Mean	SD	Inter-item correlations Strategy Profiler 1.0						Evaluation
			Item 4.1	Item 4.2	Item 4.3	Item 4.4	Item 4.5	Item 4.6	
Item 4.1	2,92	1,04	1,000	,144	,394	,134	-,001	,184	Alpha is low; 4.1 and 4.3 have a high coefficient, while all others are low. Items 4.2 and 4.4 are too extremely stated, leading to exceptionally low or high acceptance (see mean). Items 4.5 and 4.6 focus too much on unforeseen opportunities and competing initiatives, as opposed to flexibility and emergence.
Item 4.2	1,82	1,09	,144	1,000	,189	-,011	,085	,077	
Item 4.3	3,40	1,02	,394	,189	1,000	-,130	,040	,106	
Item 4.4	4,45	,72	,134	-,011	-,130	1,000	,085	,084	
Item 4.5	3,90	,94	-,001	,085	,040	,085	1,000	,079	
Item 4.6	2,99	1,23	,184	,077	,106	,084	,079	1,000	***Retained: 4.1and 4.3***

N = 182 *α = 0,58*	Mean	SD	Inter-item correlations Strategy Profiler 2.0						Evaluation
			Item 4.7	Item 4.8	Item 4.9	Item 4.10	Item 4.11	Item 4.12	
Item 4.7	3,54	1,07	1,000	,248	,393	,304	,334	,314	Alpha still low; 4.10 and 4.11 have the highest coefficient; 4.7 and 4.9 are also significantly correlated. Item 4.8 has low correlation coefficients and is stated somewhat ambiguously. Item 4.12 focuses too much on experimentation and learning, as opposed to flexibility. ***Retained: 4.7, 4.9, 4.10 and 4.11***
Item 4.8	3,77	1,05	,248	1,000	,153	-,039	,138	-,066	
Item 4.9	2,67	1,27	,393	,153	1,000	,365	,397	,182	
Item 4.10	4,16	,97	,304	-,039	,365	1,000	,493	,041	
Item 4.11	4,32	,78	,334	,138	,397	,493	1,000	,153	
Item 4.12	3,74	1,04	,314	-,066	,182	,041	,153	1,000	

N = 385 *α = 0,51*	Mean	SD	Inter-item correlations Strategy Profiler 3.0						Evaluation
			Item 4.1	Item 4.3	Item 4.7	Item 4.9	Item 4.10	Item 4.11	
Item 4.1	3,15	1,09	1,000	,352	,310	,030	,060	,129	Adding 4.1 and 4.3 from the Strategy Profiler 1.0 did not give the expected result; these two only have a high coefficient with each other, not with the rest. They both focus too much on experimentation and exploration, as opposed to setting the general direction. Surprisingly, all items have lower coefficients this time, particularly 4.7. ***Retained: 4.7, 4.9, 4.10 and 4.11***
Item 4.3	3,42	1,01	,352	1,000	,081	-,123	,000	,016	
Item 4.7	3,43	1,12	,310	,081	1,000	,081	,115	,076	
Item 4.9	2,37	1,22	,030	-,123	,081	1,000	,297	,312	
Item 4.10	4,03	,98	,060	,000	,115	,297	1,000	,334	
Item 4.11	4,12	,95	,129	,016	,076	,312	,334	1,000	

Taking the best items from both versions and adding them together turned out to be a bad tactic in this case, as items 4.1 and 4.3 were focused on a different phenomenon than the items retained from the second set. While 4.1 and 4.3 emphasize step by step experimentation and gradual exploration, the other items in this scale accentuate the importance of only setting a *general direction* and *flexibly* filling in the details along the way. The fact that these two elements are viewed differently indicates that the strategic incrementalism perspective is too broadly defined – it covers both gradual experimentation and pragmatic flexibility. And those that favor gradual experimentation and pragmatic flexibility are not always the same.

The *gradually experimental* dislike strategic planning because they believe that setting a course is impossible; the future must be explored and the direction will unfold while traveling. This position is extremely emergence-oriented, almost denying the possibility of deliberateness. The *pragmatically flexible*, on the other hand, dislike strategic planning because it is time-consuming, bureaucratic and creates rigidity; they believe it is much more productive to set a general direction and figure out the details along the way. This position is much less extreme in its emphasis on emergence over deliberateness. So, while both positions are against strategic planning, they are so for different reasons and favor a different approach to strategy formation. Yet, this distinction has not been clearly identified in the strategic management literature.

This insight came from the feedback interviews, but was also corroborated by the factor analysis (see section 14.3). In the factor analysis, items 4.1 and 4.3 never loaded onto the same factor as the other strategic incrementalism items. Interestingly, however, they also were not negatively related to the strategic planning items, as one might expect, if they were accepted by anti-planners. Actually, these items, stressing experimentation and learning, grouped together with the continuous renewal items and were negatively related to the discontinuous renewal ones, which with hindsight seems quite logical.

Given the extremely emergence-oriented position of the gradually experimental, it was decided to drop these items altogether and to focus the strategic incrementalist perspective solely on its 'traditional core' of being pragmatically flexible. This resulted in

three new items being added to the Strategy Profiler 4.0, bringing the total to 7, leaving room for some pragmatic trial and error.

Item 4.13	A good strategy leaves plenty of room to make use of emerging opportunities.
Item 4.14	Strategies should be flexible, allowing firms to respond to new circumstances.
Item 4.15	Strategies should be broad guidelines, not rigid plans.

The scores of the Strategy Profiler 4.0 can be found below. Even after the deletion of item 4.7, the alpha is only 0,53, which makes this scale still unsatisfactory. Already in the factor analysis of the Strategy Profiler 3.0, item 4.7 loaded on to a different factor, and as this is true again, its deletion is no great loss. The difficulty, however, is that the remaining items fall into two groups of three; 4.9, 4.10 and 4.15 load inversely on the same factor as the strategic planning perspective items, while 4.11, 4.13 and 4.14 load together on a separate factor. The first three focus on not planning too much in detail, while the second trio focuses on flexibility. While in the theoretical framework these two are strongly linked, in practice these views are not sufficiently aligned to be measured as one perspective. Therefore, a thorough theoretical revision of this perspective is required (see chapter 16).

N = 127 α = 0,53	**Mean**	**SD**	**Inter-item correlations Strategy Profiler 4.0**							**Evaluation**
			Item 4.7	Item 4.9	Item 4.10	Item 4.11	Item 4.13	Item 4.14	Item 4.15	Alpha is still low; including item 4.7 it is 0,51; if this item is dropped it is 0,53. Item 4.7 also loads on to a different factor.
Item 4.7	3,35	1,03	1,000	,002	,030	,230	-,031	,184	,053	
Item 4.9	2,02	1,08	,002	1,000	,252	,190	-,014	,044	,189	Items 4.13 and 4.14 have a low discriminant value and only have a high coefficient with each other.
Item 4.10	3,82	1,03	,030	,252	1,000	,276	-,022	,090	,355	
Item 4.11	4,11	,85	,230	,190	,276	1,000	,165	,132	,188	
Item 4.13	4,25	,77	-,031	-,014	-,022	,165	1,000	,414	,074	
Item 4.14	4,44	,70	,184	,044	,090	,132	,414	1,000	,135	***Scale Rejected***
Item 4.15	4,27	,76	,053	,189	,355	,188	,074	,135	1,000	***Retained: 4.9, 4.10, 4.11 & 4.15***

14.2.5 Discontinuous Renewal Perspective: Scale 5

N = 153 α = 0,57	**Mean**	**SD**	**Inter-item correlations Strategy Profiler 1.0**						**Evaluation**
			Item 5.1	Item 5.2	Item 5.3	Item 5.4	Item 5.5	Item 5.6	Alpha is too low; items 5.2 and 5.5 have the highest correlation coefficient. There coefficient with 5.1 is high, but with 5.3 is barely acceptable. The mean of 5.3 is also rather low.
Item 5.1	2,87	1,14	1,000	,282	,187	,104	,389	,260	
Item 5.2	2,65	1,12	,282	1,000	,169	,064	,405	,034	Item 5.6 is too ambiguous.
Item 5.3	2,10	1,02	,187	,169	1,000	,216	,284	,015	
Item 5.4	2,89	1,09	,104	,064	,216	1,000	,224	-,038	Item 5.4 focuses too much on longer periods of stability between changes, which is not accepted by all.
Item 5.5	2,55	1,18	,389	,405	,284	,224	1,000	,096	
Item 5.6	3,27	1,16	,260	,034	,015	-,038	,096	1,000	***Retained: 5.1, 5.2, 5.3 and 5.5***

N = 182 *α = 0,50*	Mean	SD	Inter-item correlations Strategy Profiler 2.0						Evaluation
			Item 5.7	Item 5.8	Item 5.9	Item 5.10	Item 5.11	Item 5.12	
Item 5.7	3,05	1,20	1,000	-,053	,213	,010	,069	,395	Alpha is lower; only 5.7 and 5.12 have a high correlation coefficient. With item 5.9 it is reasonable. Item 5.8 is stated too negatively. Items 5.10 and 5.11 focus too much on disruption, uncertainty and overthrowing regimes, as opposed to bold and decisive action. ***Retained: 5.7 and 5.12***
Item 5.8	2,85	1,15	-,053	1,000	,124	-,086	,135	-,028	
Item 5.9	2,65	1,15	,213	,124	1,000	-,074	,174	,258	
Item 5.10	3,87	1,00	,010	-,086	-,074	1,000	,060	-,037	
Item 5.11	2,15	1,00	,069	,135	,174	,060	1,000	,227	
Item 5.12	2,59	1,14	,395	-,028	,258	-,037	,227	1,000	

N = 385 *α = 0,63*	Mean	SD	Inter-item correlations Strategy Profiler 3.0						Evaluation
			Item 5.1	Item 5.2	Item 5.3	Item 5.5	Item 5.7	Item 5.12	
Item 5.1	3,21	1,02	1,000	,351	,172	,366	,301	,156	Alpha is slightly higher, but still too low; items 5.1, 5.2 and 5.5 still have high coefficients with one another. Item 5.7 also fits in this set. Item 5.12 has low coefficients and mean, but will be retained as extra item. Item 5.3 also has low coefficients and mean; too much emphasis on the use of crisis to achieve change. ***Retained: 5.1, 5.2, 5.5, 5.7 and 5.12***
Item 5.2	3,00	1,00	,351	1,000	,251	,382	,215	,154	
Item 5.3	2,58	1,10	,172	,251	1,000	,193	,068	,087	
Item 5.5	3,05	1,08	,366	,382	,193	1,000	,285	,158	
Item 5.7	3,12	1,21	,301	,215	,068	,285	1,000	,180	
Item 5.12	2,57	1,15	,156	,154	,087	,158	,180	1,000	

At the core of this perspective is the belief that *bold* and *decisive* organizational change is better than gradual and exploratory. However, there seems to be some variation in whether such radical change is seen as a necessary evil or a positive shake-up. The items which emphasized the 'necessary evil' side of revolution ('crisis to undermine potential resistance', 'disruption and uncertainty can be endured' and 'overthrowing old regimes') were less well liked and produced more diffuse responses, than the more positively or neutrally formulated ones. Furthermore, the theoretical argument that discontinuous renewal allows for longer periods of intermediate stability (punctuated equilibrium theory) does not seem to have many supporters at all, not even among those inclined towards the discontinuous renewal perspective. Therefore, two new, more neutrally-formulated, items were added to the Strategy Profiler 4.0.

Item 5.13	A revolutionary approach to organizational change is better than an evolutionary one.
Item 5.14	A gradual approach to organizational change usually leads to very few changes at all.

The scores of the Strategy Profiler 4.0 can be found below. Both new items have high correlation coefficients with the other items, thus contributing to the scale reliability in the manner foreseen. With an alpha of 0,70, this scale is now satisfactory. As deletion of item 5.2 leads to an alpha of 0,72, this item will no longer be included in the Strategy Profiler 4.1.

N = 127 *α = 0,70*	Mean	SD	Inter-item correlations Strategy Profiler 4.0							Evaluation
			Item 5.1	Item 5.2	Item 5.5	Item 5.7	Item 5.12	Item 5.13	Item 5.14	Alpha is sufficient; with all items included it is 0,70 and if 5.2 is dropped it is 0,72.
Item 5.1	2,94	,97	1,000	,271	,325	,163	,201	,325	,306	
Item 5.2	2,83	1,02	,271	1,000	,194	,000	,028	,100	,154	
Item 5.5	2,76	,96	,325	,194	1,000	,242	,279	,466	,399	
Item 5.7	3,09	1,15	,163	,000	,242	1,000	,129	,313	,334	
Item 5.12	2,57	1,13	,201	,028	,279	,129	1,000	,360	,383	
Item 5.13	2,87	,96	,325	,100	,466	,313	,360	1,000	,445	***Scale Accepted***
Item 5.14	2,81	1,06	,306	,154	,399	,334	,383	,445	1,000	***Retained: All except 5.2***

14.2.6 Continuous Renewal Perspective: Scale 6

N = 153 *α = 0,64*	Mean	SD	Inter-item correlations Strategy Profiler 1.0						Evaluation
			Item 6.1	Item 6.2	Item 6.3	Item 6.4	Item 6.5	Item 6.6	Alpha is almost sufficient; items 6.1 and 6.5 have the highest coefficient. Items 6.2 and 6.4 complement the group. Item 6.6 is quite acceptable.
Item 6.1	2,90	1,09	1,000	,273	,110	,289	,421	,262	
Item 6.2	3,29	1,08	,273	1,000	,135	,348	,254	,087	Only item 6.3 has low correlation coefficients; it focuses on the need for a crisis, which does not fit well.
Item 6.3	3,71	1,07	,110	,135	1,000	,155	,065	,183	
Item 6.4	3,60	1,14	,289	,348	,155	1,000	,238	,161	
Item 6.5	3,12	1,07	,421	,254	,065	,238	1,000	,388	
Item 6.6	3,89	1,11	,262	,087	,183	,161	,388	1,000	***Retained: All except 6.3***

N = 182 *α = 0,54*	Mean	SD	Inter-item correlations Strategy Profiler 2.0						Evaluation
			Item 6.7	Item 6.8	Item 6.9	Item 6.10	Item 6.11	Item 6.12	Alpha is low; only 6.9 and 6.11 have a high coefficient. Item 6.8 is reasonable.
Item 6.7	3,19	1,16	1,000	,079	,096	-,059	,249	,081	6.7, 6.8 and 6.9 have high standard deviations; 6.8 and 6.10 a low mean.
Item 6.8	2,73	1,10	,079	1,000	,275	,199	,159	,187	
Item 6.9	3,32	1,12	,096	,275	1,000	-,025	,334	-,075	Item 6.7 and 6.12 are stated too negatively.
Item 6.10	2,66	1,04	-,059	,199	-,025	1,000	,198	,130	
Item 6.11	2,79	1,05	,249	,159	,334	,198	1,000	,033	
Item 6.12	2,81	1,07	,081	,187	-,075	,130	,033	1,000	***Retained: 6.11***

N = 385 *α = 0,69*	Mean	SD	Inter-item correlations Strategy Profiler 3.0						Evaluation
			Item 6.1	Item 6.2	Item 6.4	Item 6.5	Item 6.6	Item 6.11	Alpha is almost acceptable; items 6.1, 6.2, 6.4 and 6.5 have high coefficients. Item 6.11 also has reasonable coefficients.
Item 6.1	2,95	1,03	1,000	,437	,389	,403	,138	,188	
Item 6.2	3,24	1,10	,437	1,000	,427	,291	,108	,150	Item 6.6 is the most likely candidate for deletion, as it has the highest mean. It is too much about not making a mess, which everyone agrees with.
Item 6.4	3,65	1,00	,389	,427	1,000	,316	,197	,172	
Item 6.5	3,06	1,01	,403	,291	,316	1,000	,219	,298	
Item 6.6	3,76	1,05	,138	,108	,197	,219	1,000	,168	
Item 6.11	2,80	1,04	,188	,150	,172	,298	,168	1,000	***Retained: All except 6.6***

At the core of this perspective is the belief that *gradual* and *continuous* organizational change is better than sudden and dramatic. The emphasis seems to be on what employees can handle;

allowing them to adapt their routines and embrace the changes voluntarily are key. The notion that continuous renewal requires constant pressure to keep up the pace of change is accepted, but not warmly. The threat that radical change will mess things up by changing too many things simultaneously is also acknowledged, but it is not a concern central to this perspective. Therefore, item 6.6 was dropped for the Strategy Profiler 4.0. Two new items were added, one more neutrally formulated and one stressing the importance of employee acceptance. In both cases, the evolutionary approach was positioned vis-à-vis a revolutionary approach to achieve a more discriminating effect.

Item 6.13	An evolutionary approach to organizational change is better than a revolutionary one.
Item 6.14	Pursuing revolutionary change usually creates huge resistance and low acceptance.

The scores of the Strategy Profiler 4.0 can be found below. Both new items have high correlation coefficients with the other items. With an alpha of 0,79, this scale is now satisfactory. As deletion of item 6.11 leads to an alpha of 0,78, but reduces the set of items to the intended maximum of 6, this item will no longer be included in the Strategy Profiler 4.1.

N = 127 ***α = 0,79***	**Mean**	**SD**	**Inter-item correlations Strategy Profiler 4.0**							**Evaluation**
			Item 6.1	Item 6.2	Item 6.4	Item 6.5	Item 6.11	Item 6.13	Item 6.14	Alpha is satisfactory. All items contribute to the reliability.
Item 6.1	3,01	1,00	1,000	,482	,389	,384	,258	,370	,226	Dropping item 6.11 only reduces the alpha to 0,78 and therefore this item will be deleted.
Item 6.2	3,21	1,02	,482	1,000	,477	,481	,320	,471	,308	
Item 6.4	3,71	,93	,389	,477	1,000	,383	,130	,392	,183	
Item 6.5	3,05	,93	,384	,481	,383	1,000	,355	,430	,307	
Item 6.11	2,69	1,03	,258	,320	,130	,355	1,000	,316	,295	
Item 6.13	3,22	,94	,370	,471	,392	,430	,316	1,000	,348	***Scale Accepted***
Item 6.14	3,27	,98	,226	,308	,183	,307	,295	,348	1,000	***Retained: All except 6.11***

14.2.7 Outside-In Perspective: Scale 7

N = 153 ***α = 0,21***	**Mean**	**SD**	**Inter-item correlations Strategy Profiler 1.0**						**Evaluation**
			Item 7.1	Item 7.2	Item 7.3	Item 7.4	Item 7.5	Item 7.6	Alpha is very low; only items 7.2 and 7.5 have reasonable correlation coefficient. Item 7.1 has the next highest.
Item 7.1	3,65	1,05	1,000	,135	,237	-,026	,084	,144	
Item 7.2	2,55	1,04	,135	1,000	,076	-,140	,271	-,008	Items 7.3 and 7.6 are too generally formulated and lack discriminant value (see low SD and high mean).
Item 7.3	4,16	,86	,237	,076	1,000	-,034	-,014	,134	
Item 7.4	2,69	1,16	-,026	-,140	-,034	1,000	-,155	,097	Item 7.4 focuses too much on building static market position, instead of responding to the market.
Item 7.5	3,16	1,00	,084	,271	-,014	-,155	1,000	-,036	
Item 7.6	3,93	,79	,144	-,008	,134	,097	-,036	1,000	***Retained: 7.1, 7.2 and 7.5***

N = 182 *α = 0,29*	Mean	SD	Inter-item correlations Strategy Profiler 2.0						Evaluation
			Item 7.7	Item 7.8	Item 7.9	Item 7.10	Item 7.11	Item 7.12	
Item 7.7	4,20	,70	1,000	,201	,009	,048	,029	,037	Alpha is also very low; only 7.11 and 7.12 have a high correlation coefficient. Item 7.9 has the next highest coefficient with these two.
Item 7.8	3,96	,91	,201	1,000	-,220	,021	-,048	,071	Item 7.7 seems too complex and low in discriminant value, while 7.8 is too ambiguous.
Item 7.9	2,63	1,05	,009	-,220	1,000	,035	,161	,218	
Item 7.10	3,51	1,07	,048	,021	,035	1,000	-,062	-,127	Item 7.10 is too sweeping, leaving too much room for ambiguity.
Item 7.11	3,34	1,16	,029	-,048	,161	-,062	1,000	,318	
Item 7.12	2,37	,93	,037	,071	,218	-,127	,318	1,000	***Retained: 7.9, 7.11 and 7.12***

N = 385 *α = 0,47*	Mean	SD	Inter-item correlations Strategy Profiler 3.0						Evaluation
			Item 7.1	Item 7.2	Item 7.5	Item 7.9	Item 7.11	Item 7.12	
Item 7.1	3,86	,95	1,000	,006	-,062	,059	,092	-,055	Alpha has not improved by much; there is a fundamental flaw in this scale.
Item 7.2	2,71	1,05	,006	1,000	,224	,093	,151	,360	Items 7.2 and 7.12 are a pair, focusing on markets first. Next come 7.5 and 7.9, which are about straying from core competences.
Item 7.5	3,24	1,06	-,062	,224	1,000	,230	,069	,136	
Item 7.9	2,70	,99	,059	,093	,230	1,000	,113	,171	Item 7.1 has low coefficients and a high mean. Item 7.11 has a high SD and is too statically formulated.
Item 7.11	3,21	1,28	,092	,151	,069	,113	1,000	,015	
Item 7.12	2,11	,94	-,055	,360	,136	,171	,015	1,000	***Retained: 7.2, 7.5, 7.9 and 7.12***

While the theoretical framework places considerable weight on the argument of building up defensible market positions, in practice the people who feel most attracted to this strategy perspective are those who believe that *speed* and *adaptability* to the market are the key ingredients of organizational success. At the core of the perspective is the idea of being market-driven and not wanting to get stuck exploiting aging competencies. However, this is a very difficult notion to capture, as being *market-driven* seems so close to being *market-oriented*, which everyone will agree with.

This struggle to find short, simple and clear-cut statements distinguishing between market-driven and market-oriented is visible in the poor reliability scores above. Item 7.1 is a good example; most executives agree with the need to flexibly respond to emerging market opportunities, making the item too weak as differentiator. The items that work the best are those that stress the need to respond to the market, despite the absence of the correct competences, such as 7.2 and 7.12. Therefore, three new items were formulated around the concept of not falling in the *competence trap* (see chapter 5). All three state the preeminence of the market as a driver, as opposed to the importance of core competences. These three were added to Strategy Profiler 4.0, bringing the total to 7 items for this scale.

Item 7.13	Staying close to your core competences is a too conservative approach.
Item 7.14	Successful firms are willing to throw away their core competences if market opportunities are better elsewhere.
Item 7.15	Always follow the market, even when you don't have the right technologies and capabilities yet.

The scores of the Strategy Profiler 4.0 can be found below. With an alpha of 0,74, this scale is now satisfactory. All three new items have high correlation coefficients with the 4 retained items, although item 7.15 can be deleted without any reduction of the reliability. Therefore, this item will no longer be included in the Strategy Profiler 4.1.

N = 127 *α = 0,74*	Mean	SD	Inter-item correlations Strategy Profiler 4.0							Evaluation
			Item 7.2	Item 7.5	Item 7.9	Item 7.12	Item 7.13	Item 7.14	Item 7.15	
Item 7.2	2,90	1,01	1,000	,382	,292	,460	,327	,195	,211	Alpha is satisfactory. All items contribute to the reliability, but item 7.15 can be deleted without incurring a reduction in reliability. ***Scale Accepted*** ***Retained: All except 7.15***
Item 7.5	3,12	1,04	,382	1,000	,380	,362	,348	,244	,215	
Item 7.9	2,41	,95	,292	,380	1,000	,369	,352	,227	,236	
Item 7.12	2,22	,97	,460	,362	,369	1,000	,287	,208	,304	
Item 7.13	2,58	1,02	,327	,348	,352	,287	1,000	,428	,123	
Item 7.14	2,26	,98	,195	,244	,227	,208	,428	1,000	,110	
Item 7.15	2,21	1,03	,211	,215	,236	,304	,123	,110	1,000	

14.2.8 Inside-Out Perspective: Scale 8

N = 153 *α = 0,56*	Mean	SD	Inter-item correlations Strategy Profiler 1.0						Evaluation
			Item 8.1	Item 8.2	Item 8.3	Item 8.4	Item 8.5	Item 8.6	
Item 8.1	3,66	,97	1,000	,216	,131	,373	,099	,081	Alpha is relatively low; items 8.3 and 8.5 have the highest correlation coefficient. Item 8.4 has the next highest coefficients. Items 8.1, 8.2 and 8.6 are too generally formulated, emphasizing importance of competences; they lack discriminant value. ***Retained: 8.3, 8.4 and 8.5***
Item 8.2	3,19	1,01	,216	1,000	,066	,305	,079	,112	
Item 8.3	3,21	1,08	,131	,066	1,000	,259	,545	,053	
Item 8.4	3,86	,88	,373	,305	,259	1,000	,087	,174	
Item 8.5	3,60	1,05	,099	,079	,545	,087	1,000	,065	
Item 8.6	3,27	,94	,081	,112	,053	,174	,065	1,000	

N = 182 *α = 0,28*	Mean	SD	Inter-item correlations Strategy Profiler 2.0						Evaluation
			Item 8.7	Item 8.8	Item 8.9	Item 8.10	Item 8.11	Item 8.12	
Item 8.7	2,93	1,01	1,000	,016	-,146	,143	-,077	,160	Alpha is very low; 8.9 and 8.12 have the highest correlation coefficient, and next comes the pair 8.10 and 8.12. But oddly 8.9 and 8.10 are negatively correlated. Items 8.7 and 8.8 both seem too complex, while 8.11 is too ambiguous. ***Retained: 8.9, 8.10 and 8.12***
Item 8.8	2,36	1,15	,016	1,000	,022	-,093	-,060	,075	
Item 8.9	2,98	1,09	-,146	,022	1,000	-,061	-,007	,292	
Item 8.10	3,49	1,09	,143	-,093	-,061	1,000	,007	,270	
Item 8.11	3,01	1,05	-,077	-,060	-,007	,007	1,000	,109	
Item 8.12	3,05	1,27	,160	,075	,292	,270	,109	1,000	

N = 385 *α = 0,55*	Mean	SD	Inter-item correlations Strategy Profiler 3.0						Evaluation
			Item 8.3	Item 8.4	Item 8.5	Item 8.9	Item 8.10	Item 8.12	
Item 8.3	3,30	,99	1,000	,208	,365	,116	,195	,080	Alpha has not improved by much; items 8.3 and 8.5 still have the highest correlation coefficient, with 8.4 and 8.10 also showing reasonable coefficients. Item 8.9 is just acceptable. Item 8.12 has low coefficients and a very high SD; probably because it is too complex. ***Retained: All except 8.12***
Item 8.4	3,74	1,00	,208	1,000	,143	,315	,263	,135	
Item 8.5	3,60	,96	,365	,143	1,000	,025	,221	,088	
Item 8.9	3,06	1,06	,116	,315	,025	1,000	,108	,140	
Item 8.10	3,72	1,01	,195	,263	,221	,108	1,000	,189	
Item 8.12	2,95	1,29	,080	,135	,088	,140	,189	1,000	

The challenge here is the mirror-image of that faced when developing the scale for the outside-in perspective. Almost everyone readily acknowledges the importance of

competences, capabilities and technologies for establishing a competitive advantage (i.e. is *competence-oriented*), but the question is whether they believe a company should also be *competence-driven*. This emphasis on building distinct competences and looking for market opportunities to exploit these existing strengths is at the heart of the perspective. The struggle in the strategy profiler is again to find simple, short and unambiguous statements to represent this rather complex position.

In a quest to improve the reliability of this scale, two new items were formulated around the concept of staying close to the organization's strengths. These two were added to the Strategy Profiler 4.0, bringing the total to 7 items for this scale.

Item 8.13	Firms should focus on the market opportunities closest to their core competencies.
Item 8.14	Stay close to the firm's current strengths, instead of chasing wild new market opportunities.

The scores of the Strategy Profiler 4.0 can be found below. With an alpha of 0,60, this scale is still not entirely sound. The same message can be deduced from the factor analysis, where items 8.4, 8.9 and 8.10 all load on to different factors than the other four items that make up the core group. This seems rather odd, as items 8.4 and 8.10 did load on to the same factor as the others in the previous version of the Strategy Profiler.

N = 127 ***α = 0,60***	**Mean**	**SD**	**Inter-item correlations Strategy Profiler 4.0**							**Evaluation**
			Item 8.3	Item 8.4	Item 8.5	Item 8.9	Item 8.10	Item 8.13	Item 8.14	
Item 8.3	3,58	,96	1,000	,105	,260	,292	,047	,381	,244	Alpha still too low. Dropping item 8.4 brings the alpha up to 0,62. Also dropping item 8.10 brings the alpha to 0,64. Then dropping item 8.9 brings the alpha to 0,66.
Item 8.4	3,84	,91	,105	1,000	,009	,256	,108	-,032	,058	
Item 8.5	3,70	,99	,260	,009	1,000	,098	,112	,454	,326	
Item 8.9	3,74	,91	,292	,256	,098	1,000	,002	,111	,105	Items 8.10 and 8.9 will be left in provisionally, but can be dropped later.
Item 8.10	2,98	1,01	,047	,108	,112	,002	1,000	,195	,358	
Item 8.13	3,90	,83	,381	-,032	,454	,111	,195	1,000	,286	***Scale Provisionally Accepted***
Item 8.14	3,34	1,01	,244	,058	,326	,105	,358	,286	1,000	***Retained: All except 8.4***

More positively, however, the new items do have high correlation coefficients with 8.3 and 8.5, indicating that the tightening of the construct to concentrate around the concept of being competence-driven has been successful. This core group of four items has an alpha of 0,66, which is almost the level intended. Therefore, for the Strategy Profiler 4.1 only item 8.4 will be dropped permanently, while items 8.9 and 8.10 will retained on a provisional basis. After wider testing outside of the Bank ABC environment, it might be necessary to drop one or two of these items and introduce alternatives, again focusing on the concept of being competence-driven.

14.2.9 Portfolio Organization Perspective: Scale 9

N = 153 *α = 0,62*	Mean	SD	Inter-item correlations Strategy Profiler 1.0						Evaluation
			Item 9.1	Item 9.2	Item 9.3	Item 9.4	Item 9.5	Item 9.6	
Item 9.1	1,58	,87	1,000	,140	,139	,201	,323	,374	Alpha is relatively high; items 9.1 and 9.6 have the highest correlation coefficient, but 9.2 and 9.5 also have high coefficients with this set. Interestingly, items 9.3 and 9.4 have a high coefficient with each other, but not with the other four. They stress the importance of financial performance and bonuses, as opposed to business unit autonomy. ***Retained: 9.1, 9.2, 9.5 and 9.6***
Item 9.2	2,68	1,09	,140	1,000	,142	-,016	,274	,349	
Item 9.3	2,81	1,18	,139	,142	1,000	,358	,134	,343	
Item 9.4	2,61	1,09	,201	-,016	,358	1,000	,088	,187	
Item 9.5	2,07	1,05	,323	,274	,134	,088	1,000	,244	
Item 9.6	2,57	1,05	,374	,349	,343	,187	,244	1,000	

N = 182 *α = 0,51*	Mean	SD	Inter-item correlations Strategy Profiler 2.0						Evaluation
			Item 9.7	Item 9.8	Item 9.9	Item 9.10	Item 9.11	Item 9.12	
Item 9.7	3,32	1,00	1,000	,158	,062	,088	,312	,213	Alpha is lower; 9.11 and 9.12 have the highest correlation coefficient, but 9.7 also has a high coefficient with these two. The coefficients of item 9.10 are acceptable. Items 9.8 and particularly 9.9 have low coefficients and low means, as they are against cooperation, instead of pro-autonomy. ***Retained: 9.11 and 9.12***
Item 9.8	2,26	1,12	,158	1,000	,125	,245	,211	,196	
Item 9.9	2,30	,98	,062	,125	1,000	,061	,190	,048	
Item 9.10	2,66	1,09	,088	,245	,061	1,000	,204	,291	
Item 9.11	3,12	1,04	,312	,211	,190	,204	1,000	,320	
Item 9.12	2,49	,95	,213	,196	,048	,291	,320	1,000	

N = 385 *α = 0,61*	Mean	SD	Inter-item correlations Strategy Profiler 3.0						Evaluation
			Item 9.1	Item 9.2	Item 9.5	Item 9.6	Item 9.11	Item 9.12	
Item 9.1	1,63	,87	1,000	,030	,118	,204	,081	,048	Alpha has not improved by much; keeping 9.1 was not beneficial, as it is too extreme; see the low mean and SD. All other items have reasonable correlation coefficients, but just not high enough. Item 9.5 will be deleted, due to its very low mean; it is too extremely worded. ***Retained: All except 9.1 and 9.5***
Item 9.2	2,61	1,10	,030	1,000	,217	,235	,157	,259	
Item 9.5	2,16	,99	,118	,217	1,000	,292	,351	,240	
Item 9.6	2,64	1,03	,204	,235	,292	1,000	,227	,212	
Item 9.11	2,77	1,10	,081	,157	,351	,227	1,000	,217	
Item 9.12	2,51	1,01	,048	,259	,240	,212	,217	1,000	

In selecting the items for the Strategy Profiler 3.0, a misjudgment was made and item 9.1 was inserted, although it was much too extreme (see low mean and standard deviation) and had only a moderate correlation coefficient with the other items. On the other hand, item 9.7 was filtered out, while it actually had better correlation coefficients. So, in the Strategy Profiler 4.0, item 9.7 was reinserted.

On a more fundamental basis, the low reliability score pointed to the need for a more restricted definition of the construct. What became clear from the feedback group was that, contrary to theory, no one was against synergy. Almost the entire population of respondents supported cooperation between business units in an effort to realize synergies. Where the major disagreement arose, however, was when this *collaboration* between business units had a negative influence on business unit *autonomy*. People who felt attracted to the portfolio organization perspective supported the idea of cooperation, as long as it had no consequences for the freedom of business units to pursue their own objectives. In other words, they were willing to advance the cause of synergies, but not to give up BU autonomy. Also contrary to

the theoretical framework, this autonomy was not justified by the need for responsiveness to the business environment, but by a pragmatic sense of decentralized responsibility, entrepreneurship and avoidance of bureaucracy.

Therefore, in a quest to improve the reliability of this scale, two new items were formulated around this core concept of business unit autonomy. These two were added to the Strategy Profiler 4.0, bringing the total to 7 items for this scale.

Item 9.13	In strategy, the business units should lead and the corporate head office should facilitate.
Item 9.14	In successful corporations, almost all key activities and decision-making is done in the business units.

The scores of the Strategy Profiler 4.0 can be found below. Both new items have high correlation coefficients with the other items, bringing the alpha to 0,65. If item 9.6 is dropped, the alpha even goes to 0,66, which is still just a bit short of the 0,70 target, yet acceptable, especially since all items load on to the same factor in the factor analysis. So, for the Strategy Profiler 4.1 all items will be retained, with the exception of 9.6.

N = 127 ***α = 0,65***	**Mean**	**SD**	**Inter-item correlations Strategy Profiler 4.0**							**Evaluation**
			Item 9.2	Item 9.5	Item 9.6	Item 9.11	Item 9.12	Item 9.13	Item 9.14	Alpha is almost satisfactory; if item 9.6 is dropped, then the alpha is 0,66.
Item 9.2	3,24	1,03	1,000	,049	,146	,102	,338	,308	,385	
Item 9.5	3,09	1,01	,049	1,000	,039	,267	,220	,210	,269	
Item 9.6	2,94	,94	,146	,039	1,000	,234	,037	,043	,242	
Item 9.11	3,11	1,11	,102	,267	,234	1,000	,169	,179	,250	
Item 9.12	2,54	,86	,338	,220	,037	,169	1,000	,335	,162	***Scale Accepted***
Item 9.13	3,23	1,11	,308	,210	,043	,179	,335	1,000	,457	***Retained: All except 9.6***
Item 9.14	3,36	,97	,385	,269	,242	,250	,162	,457	1,000	

14.2.10 Integrated Organization Perspective: Scale 10

N = 153 ***α = 0,53***	**Mean**	**SD**	**Inter-item correlations Strategy Profiler 1.0**						**Evaluation**
			Item 10.1	Item 10.2	Item 10.3	Item 10.4	Item 10.5	Item 10.6	Alpha is low; items 10.1 and 10.6 have a high correlation coefficient, but 10.2 and 10.5 also have high coefficients with this set.
Item 10.1	4,33	,75	1,000	,134	,026	,136	,064	,393	
Item 10.2	4,05	,89	,134	1,000	,091	,179	,212	,362	Just as in the portfolio scale, items 10.3 and 10.4 have high coefficient with each other, but not to the others. They stress the importance of financial performance and bonuses, as opposed to corporate direction.
Item 10.3	2,71	1,21	,026	,091	1,000	,340	-,086	,199	
Item 10.4	2,92	1,18	,136	,179	,340	1,000	,060	,236	
Item 10.5	3,27	1,15	,064	,212	-,086	,060	1,000	,251	
Item 10.6	4,10	,88	,393	,362	,199	,236	,251	1,000	***Retained: 10.1, 10.2, 10.5 and 10.6***

N = 182 *α = 0,59*	Mean	SD	Inter-item correlations Strategy Profiler 2.0						Evaluation
			Item 10.7	Item 10.8	Item 10.9	Item 10.10	Item 10.11	Item 10.12	
Item 10.7	3,80	,93	1,000	,489	,256	,148	,165	-,079	Alpha is higher; 10.7 and 10.8 have the highest correlation coefficient, but that is because they emphasize cooperation, just as 10.9; this is not discriminating (see mean and SD). Item 10.10 deals with the corporate composition, which no others do. Items 10.11 and 10.12 focus on the core issue and have a high coefficient. ***Retained: 10.11 and 10.12***
Item 10.8	3,63	,94	,489	1,000	,275	,201	,118	,009	
Item 10.9	4,09	,80	,256	,275	1,000	,233	,098	,017	
Item 10.10	2,68	1,11	,148	,201	,233	1,000	-,011	-,048	
Item 10.11	3,26	1,07	,165	,118	,098	-,011	1,000	,242	
Item 10.12	3,56	,97	-,079	,009	,017	-,048	,242	1,000	

N = 385 *α = 0,59*	Mean	SD	Inter-item correlations Strategy Profiler 3.0						Evaluation
			Item 10.1	Item 10.2	Item 10.5	Item 10.6	Item 10.11	Item 10.12	
Item 10.1	4,34	,74	1,000	,134	,070	,337	,083	,082	Alpha is still too low; items 10.1 and 10.6 have a high correlation coefficient, but again emphasize sharing, as opposed to central direction setting. All other items have a reasonable correlation coefficient, but just not high enough. ***Retained: All except 10.1 & 10.6***
Item 10.2	4,09	,93	,134	1,000	,247	,212	,251	,241	
Item 10.5	3,45	1,11	,070	,247	1,000	,169	,414	,180	
Item 10.6	4,00	,89	,337	,212	,169	1,000	,074	,207	
Item 10.11	3,60	1,13	,083	,251	,414	,074	1,000	,173	
Item 10.12	3,49	1,04	,082	,241	,180	,207	,173	1,000	

Similar to the portfolio organization scale, the problem here was that almost all the respondents reacted positively to the terms synergy, sharing and cross-business unit cooperation. In contrast to the theoretical framework, most respondents did not explicitly recognize that synergy can be at the cost of responsiveness. Likewise, cooperation was regarded by most executives as something that is always beneficial, without acknowledging that it might be to the detriment of business unit autonomy. In the feedback from the participants in the debriefing sessions this embrace of cooperation as a universal virtue became particularly clear; being cooperative was seen as desirable by almost all executives. To what extent they really believed it to be *desirable*, and to what extent it was just a *socially desirable* answer, was difficult for the researchers to determine.

After some further questioning most debriefing participants indicated that the trade-off they did recognize was between central direction-setting and decentralized initiative. In other words, while there was a large measure of agreement on the need to synergize, share and work together between business units in corporations, the respondents who favored the integrated organization perspective argued that synergizing required headquarters to take the lead in setting the strategic direction, while the respondents who leaned towards the portfolio organization perspective believed that the business units should be the drivers of any cross-unit cooperation.

It was therefore decided to tighten up the definition of the integrated organization perspective by focusing on the core concept of *central direction-setting* (as opposed to business unit autonomy). This is defined as headquarters taking the lead in setting the direction for the entire company, but does not automatically mean centralization of all decision-making, activities and/or resources. Elements such as synergy, cooperation and sharing are still closely associated with this perspective and pursued more vehemently than by supporters of the portfolio organization perspective, but they are no longer seen as *the* main distinguishing characteristic.

This refocused definition was translated into three new items that were added to four older items, retained from the Strategy Profiler 3.0, bringing the total to 7 items for this scale.

Item 10.13	The corporate strategy should be leading and business units should follow very closely.
Item 10.14	In successful corporations, a lot of key activities and decision-making is done centrally.
Item 10.15	Business units should have only limited autonomy to deviate from corporate strategic plans.

The scores of the Strategy Profiler 4.0 can be found below. With an alpha of 0,67, this scale is almost satisfactory. As deletion of item 10.14 leads to an alpha of 0,70, this item will no longer be included in the Strategy Profiler 4.1.

It should be noted that in the factor analysis a number of the items load on to the same factor as the global convergence perspective items. However, this is probably due to the fact that the sample company, Bank ABC, has business units that are actually country units, which means that central direction and central decision-making are highly connected to global standardization in their specific situation. Yet, in the follow-up measurements of the Strategy Profiler 4.1 this issue needs to be rechecked.

N = 127 ***α = 0,67***	**Mean**	**SD**	**Inter-item correlations Strategy Profiler 4.0**							**Evaluation**
			Item 10.2	Item 10.5	Item 10.11	Item 10.12	Item 10.13	Item 10.14	Item 10.15	
Item 10.2	4,02	,89	1,000	,211	,146	,191	,276	,108	,246	Alpha is almost satisfactory; if item 10.14 is deleted, then the alpha climbs to 0,70.
Item 10.5	3,37	1,01	,211	1,000	,372	,309	,401	,039	,295	
Item 10.11	3,72	,98	,146	,372	1,000	,099	,297	-,001	,223	
Item 10.12	3,46	,97	,191	,309	,099	1,000	,377	,075	,263	
Item 10.13	3,35	,97	,276	,401	,297	,377	1,000	,227	,442	***Scale Accepted***
Item 10.14	2,75	,98	,108	,039	-,001	,075	,227	1,000	,159	***Retained: All except 10.14***
Item 10.15	2,84	1,07	,246	,295	,223	,263	,442	,159	1,000	

14.2.11 Discrete Organization Perspective: Scale 11

N = 153 ***α = 0,48***	**Mean**	**SD**	**Inter-item correlations Strategy Profiler 1.0**						**Evaluation**
			Item 11.1	Item 11.2	Item 11.3	Item 11.4	Item 11.5	Item 11.6	
Item 11.1	2,48	,92	1,000	,239	,299	,014	-,145	,210	Alpha is low; items 11.3 and 11.6 have the highest correlation coefficient, although both have a very low mean.
Item 11.2	2,74	1,18	,239	1,000	,184	,164	,003	,079	Items 11.1 and 11.2 were seen as too complex and ambiguous.
Item 11.3	1,85	,94	,299	,184	1,000	,220	,137	,313	Items 11.4 and 11.5 focus too much on outsourcing relationships as opposed to partnerships in general.
Item 11.4	2,70	1,12	,014	,164	,220	1,000	,058	,228	
Item 11.5	3,46	1,06	-,145	,003	,137	,058	1,000	,122	
Item 11.6	2,07	,91	,210	,079	,313	,228	,122	1,000	***Retained: 11.3 and 11.6***

N = 182 *α = 0,51*	Mean	SD	Inter-item correlations Strategy Profiler 2.0						Evaluation
			Item 11.7	Item 11.8	Item 11.9	Item 11.10	Item 11.11	Item 11.12	
Item 11.7	2,64	1,08	1,000	,228	,087	,004	-,018	,111	Alpha is still low; items 11.11 and 11.12 have the highest correlation coefficient, while 11.9 and 11.10 also have high coefficients with this set. Items 11.7 and 11.8 again focus on buyer-seller relationships as opposed to partnerships in general. None of the items has a good mean. ***Retained: 11.9, 11.10, 11.11 & 11.12***
Item 11.8	1,83	,85	,228	1,000	,059	,146	,030	,071	
Item 11.9	3,96	1,08	,087	,059	1,000	,212	,165	,143	
Item 11.10	2,43	,91	,004	,146	,212	1,000	,269	,287	
Item 11.11	2,43	,96	-,018	,030	,165	,269	1,000	,348	
Item 11.12	2,29	,93	,111	,071	,143	,287	,348	1,000	

N = 385 *α = 0,51*	Mean	SD	Inter-item correlations Strategy Profiler 3.0						Evaluation
			Item 11.3	Item 11.6	Item 11.9	Item 11.10	Item 11.11	Item 11.12	
Item 11.3	1,94	,91	1,000	,138	,029	,313	,207	,225	Alpha still low; 11.10 and 11.12 have the highest coefficient, while 11.11 also has high coefficients with this set. Item 11.9 has low coefficients and a high mean, indicating it is popular among all respondents, i.e. non-discriminant. Item 11.6 also has low coefficients. Item 11.3 is stated too extremely (see mean) ***Retained: 11.10, 11.11 and 11.12***
Item 11.6	2,03	,91	,138	1,000	,039	-,007	,051	,090	
Item 11.9	4,07	,97	,029	,039	1,000	-,058	,000	,107	
Item 11.10	2,32	,93	,313	-,007	-,058	1,000	,196	,369	
Item 11.11	2,43	,93	,207	,051	,000	,196	1,000	,346	
Item 11.12	2,29	,93	,225	,090	,107	,369	,346	1,000	

The most obvious difficulty in developing this scale was that almost all items elicited an extreme response; they either have a very high or a very low mean. Based on the feedback from the debriefing sessions it became clear that this was probably due to two separate reasons. First, it seemed that the items had been formulated too resolutely and too negatively, which led quite a few people to give them a low score. The one item with a very high mean, item 11.9, was also too extremely stated, but then in a positive sense, making it too attractive to all respondents, lessening its discriminatory value. Secondly, it also seemed that the low means were affected by a slight bias in the sample. Given the high percentage of Dutch respondents and their preference against the discrete organization perspective, this appears to have had a lowering effect on the item scores.

Besides this difficulty, there was also a problem with the scope of the construct. In the theoretical framework it was anticipated that discrete organization perspective supporters would have the same basic attitude to buyer-supplier interaction as to other forms of inter-organizational relationships. Therefore, quite a few of the items were formulated around the relationship between sellers and their customers. However, it became clear that many executives view these relationships differently than the topic of partnerships and alliances in general. This did not only emerge out of the debriefing sessions, but could also be seen in the factor analysis. The items in Strategy Profiler 3.0 that dealt with buyer-supplier interaction (items 11.6 and 11.9, but also 12.6 and 12.7) loaded onto a different factor than the items dealing with partnerships and alliances (items 11.1, 11.10, 11.11 and 11.12, but also 12.11 and 12.12). In the feedback from the respondents it was often pointed out that they felt differently about *non-voluntary relationships* (i.e. those with buyers, suppliers, governments and regulators, which they must have) as opposed to *voluntary relationships* (i.e. ones they could engage in if they believed it could bring some advantage). In non-voluntary relationships firms *must* deal with the outside world, although they often have a choice which suppliers, customers and governments they want to deal with. In voluntary relationships firms have a choice whether to work independently or in unison with a partner. Managing non-voluntary relationships involves another dynamic, coping with unavoidable dependencies,

while opting for voluntary relationships is a different type of choice, between independence and interdependence.

The conclusion was that the discrete organization perspective construct needed to be more tightly defined around one of the two factors. It was decided to focus on the voluntary relationships, as this is much closer to the core concept of *organizational independence* vs. interdependence. However, it must be pointed out that in future the topic of non-voluntary relationships, with its associated aspects such as vertical integration and outsourcing, could be a fruitful dimension along which differences of perspective could be mapped.

Given this thorough refocusing, it was judged that three items could be retained from the previous version of the Strategy Profiler, while another could also be reused if it was less extremely phrased (item 11.3). To be on the safe side, four new items were added to this set, bringing the total to 8 items for this scale.

Item 11.3	In alliances between firms, partners should never be fully trusted.
Item 11.13	Firms should only consider alliances if they lack the ability to accomplish things independently.
Item 11.14	Alliances are for the weak; strong firms set their goals and achieve them independently.
Item 11.15	In most so-called partnerships, both firms are largely focused on their own interests.
Item 11.16	Firms should never accept being dependent on an alliance partner for their long term success.

The scores of the Strategy Profiler 4.0 can be found below. Unfortunately, due to a programming error, item 11.12 was deleted from the item set and therefore no data was collected about this item. The alpha for the other items was 0,66, with all of them contributing to the improved reliability, except the revised item 11.3. If this item is deleted, then the alpha improves slightly to 0,67, so it will no longer be included in the Strategy Profiler 4.1.

The overall conclusion is that this thorough refocusing of the construct seems to have been successful. The alpha falls just short of the intended level, but is still acceptable. It should be noted, however, that two of the items do not load on to the same factor as the other items. Item 11.13 aligns with the inside-out perspective items, as it also focuses on the importance of having a competence strength. Item 11.15 loads on to the same factor as the deleted items of the strategic incrementalism perspective, without it being very clear why. These two will need to be screened again, after more data-points have been collected outside of Bank ABC.

N = 127 ***α = 0,66***	**Mean**	**SD**	**Inter-item correlations Strategy Profiler 4.0**							**Evaluation**
			Item 11.3	Item 11.10	Item 11.11	Item 11.13	Item 11.14	Item 11.15	Item 11.16	
Item 11.3	2,43	1,01	1,000	,285	-,074	,031	,127	,279	,170	Alpha almost sufficient; if item 11.3 is deleted, then the alpha increases to 0,67.
Item 11.10	2,43	,90	,285	1,000	,302	,324	,293	,379	,228	
Item 11.11	2,83	1,01	-,074	,302	1,000	,243	,324	,284	,263	
Item 11.13	2,87	1,10	,031	,324	,243	1,000	,241	,114	,243	
Item 11.14	2,17	1,02	,127	,293	,324	,241	1,000	,067	,239	***Scale Accepted***
Item 11.15	3,37	1,03	,279	,379	,284	,114	,067	1,000	,258	***Retained: All except 11.3***
Item 11.16	3,55	1,14	,170	,228	,263	,243	,239	,258	1,000	

14.2.12 Embedded Organization Perspective: Scale 12

N = 153 *α = 0,48*	Mean	SD	Inter-item correlations Strategy Profiler 1.0						Evaluation
			Item 12.1	Item 12.2	Item 12.3	Item 12.4	Item 12.5	Item 12.6	
Item 12.1	3,43	,92	1,000	,104	,232	-,064	,224	,096	Alpha is low; items 12.5 and 12.6 have the highest coefficient, while 12.1 and 12.5 also have a reasonable coefficient. Item 12.3 has a very high mean, indicating low discriminatory value. Items 12.2 and 12.4 only have a high coefficient with each other; later it became clear these should have been retained. ***Retained: 12.1, 12.5 and 12.6***
Item 12.2	3,57	1,00	,104	1,000	,073	,248	,122	,119	
Item 12.3	4,50	,83	,232	,073	1,000	,141	,077	,122	
Item 12.4	3,22	1,15	-,064	,248	,141	1,000	,068	,168	
Item 12.5	4,07	,83	,224	,122	,077	,068	1,000	,330	
Item 12.6	3,61	1,08	,096	,119	,122	,168	,330	1,000	

N = 182 *α = 0,46*	Mean	SD	Inter-item correlations Strategy Profiler 2.0						Evaluation
			Item 12.7	Item 12.8	Item 12.9	Item 12.10	Item 12.11	Item 12.12	
Item 12.7	3,64	,90	1,000	,098	,171	,162	,143	,121	Alpha is low; items 12.11 and 12.12 have the highest correlation coefficient, while 12.7 has the next highest with this set. Items 12.8 and 12.9 have a high mean, low SD and low coefficients and are therefore dropped. Item 12.10 is too ambiguous. ***Retained: 12.7, 12.11 and 12.12***
Item 12.8	4,34	,76	,098	1,000	-,030	-,031	,112	,176	
Item 12.9	4,17	,86	,171	-,030	1,000	,063	,092	,136	
Item 12.10	2,82	,96	,162	-,031	,063	1,000	,136	,159	
Item 12.11	3,81	,84	,143	,112	,092	,136	1,000	,322	
Item 12.12	4,08	,78	,121	,176	,136	,159	,322	1,000	

N = 385 *α = 0,55*	Mean	SD	Inter-item correlations Strategy Profiler 3.0						Evaluation
			Item 12.1	Item 12.5	Item 12.6	Item 12.7	Item 12.11	Item 12.12	
Item 12.1	3,49	,88	1,000	,105	,038	,012	,174	,160	Alpha is still too low; items 12.6 and 12.7 have the highest coefficient, but they are focused on buyer-supplier relations. The same is true for item 12.5. Item 12.1 has low coefficients with the remaining items. ***Retained: 12.11 and 12.12***
Item 12.5	4,03	,80	,105	1,000	,249	,179	,276	,134	
Item 12.6	3,69	,97	,038	,249	1,000	,375	,172	,153	
Item 12.7	3,44	1,00	,012	,179	,375	1,000	,093	,049	
Item 12.11	3,58	,89	,174	,276	,172	,093	1,000	,313	
Item 12.12	3,90	,86	,160	,134	,153	,049	,313	1,000	

The difficulty here was exactly the same as with the discrete organization perspective; the construct was too broadly defined, mixing views on non-voluntary and voluntary relationships. The remedy here was also the same, namely the removal of all items focusing on buyer-supplier relationships (items 12.5, 12.6 and 12.7) and the insertion of 5 new items dealing with partnerships and alliances. Again, this brought the scale to a total of 7 items.

Item 12.13	Partnerships between firms are a great way to combine competencies and achieve innovations.
Item 12.14	In long-term partnerships with suppliers, firms should share the details of their weaknesses and their strategies.
Item 12.15	Alliances are a great way to combine resources and attack a mutual rival.
Item 12.16	There are many examples of mutually-beneficial long-term partnerships between firms.
Item 12.17	It is strategically ok for two alliance partners to be mutually-dependent for their long term success.

The scores of the Strategy Profiler 4.0 can be found below. With an alpha of 0,70, this scale has made a big step forward and is now satisfactory. Actually, if item 12.14 is deleted the alpha increases to 0,73, making this the logical choice for leaving out of the Strategy Profiler 4.1.

N = 127 ***α = 0,70***	**Mean**	**SD**	**Inter-item correlations Strategy Profiler 4.0**							**Evaluation**
			Item 12.11	Item 12.12	Item 12.13	Item 12.14	Item 12.15	Item 12.16	Item 12.17	Alpha is satisfactory; if item 12.14 is deleted the alpha increases to 0,73.
Item 12.11	3,23	,90	1,000	,443	,481	,053	,324	,353	,182	
Item 12.12	3,75	,88	,443	1,000	,418	,166	,281	,323	,301	
Item 12.13	3,85	,90	,481	,418	1,000	,121	,339	,563	,134	
Item 12.14	3,08	1,03	,053	,166	,121	1,000	-,001	,182	,081	
Item 12.15	3,46	,94	,324	,281	,339	-,001	1,000	,257	,158	
Item 12.16	3,58	,92	,353	,323	,563	,182	,257	1,000	,254	***Scale Accepted***
Item 12.17	2,94	1,07	,182	,301	,134	,081	,158	,254	1,000	***Retained: All except 12.14***

14.2.13 Industry Dynamics Perspective: Scale 13

N = 153 ***α = 0,36***	**Mean**	**SD**	**Inter-item correlations Strategy Profiler 1.0**						**Evaluation**
			Item 13.1	Item 13.2	Item 13.3	Item 13.4	Item 13.5	Item 13.6	Alpha is very low; items 13.2 and 13.4 have the highest coefficient, while 13.3 also has reasonable coefficients with these items.
Item 13.1	2,22	1,19	1,000	,191	,194	-,023	,003	,026	
Item 13.2	2,21	1,12	,191	1,000	,091	,272	-,032	,208	Item 13.1 has a low mean, high SD and low coefficients; stated too ambiguously.
Item 13.3	2,38	1,07	,194	,091	1,000	,175	,044	-,031	
Item 13.4	3,67	1,13	-,023	,272	,175	1,000	,016	,009	Item 13.5 has a high mean, low SD and low coefficients; stated too extreme. Item 13.6 is also too extremely stated.
Item 13.5	3,93	,86	,003	-,032	,044	,016	1,000	,071	
Item 13.6	2,45	,74	,026	,208	-,031	,009	,071	1,000	***Retained: 13.2, 13.3 and 13.4***

N = 182 ***α = 0,42***	**Mean**	**SD**	**Inter-item correlations Strategy Profiler 2.0**						**Evaluation**
			Item 13.7	Item 13.8	Item 13.9	Item 13.10	Item 13.11	Item 13.12	Alpha is very low; items 13.9 and 13.11 have the highest correlation coefficient, while 13.10 has the next highest with this set. Yet, 13.9 has a very low mean.
Item 13.7	2,69	1,05	1,000	-,044	,147	,129	,121	,043	
Item 13.8	3,58	1,18	-,044	1,000	-,019	,038	-,174	,069	Items 13.7 and 13.12 are too negative; too much about difficulty of innovation, instead of wisdom of following.
Item 13.9	2,06	,84	,147	-,019	1,000	,150	,286	,061	
Item 13.10	3,32	1,08	,129	,038	,150	1,000	,225	,136	Item 13.8 is too ambiguous.
Item 13.11	2,51	1,00	,121	-,174	,286	,225	1,000	,061	
Item 13.12	2,60	1,12	,043	,069	,061	,136	,061	1,000	***Retained: 13.9, 13.10 and 13.11***

N = 385 *α = 0,38*	Mean	SD	Inter-item correlations Strategy Profiler 3.0						Evaluation
			Item 13.2	Item 13.3	Item 13.4	Item 13.9	Item 13.10	Item 13.11	
Item 13.2	2,58	1,14	1,000	,325	-,024	,053	,018	,088	Alpha is still too low; items 13.2 and 13.3 have the highest coefficient, but they are focused on the difficulty of innovation and differentiation.
Item 13.3	2,40	1,03	,325	1,000	,029	,114	,037	,067	Item 13.4 is too broadly stated, emphasizing the importance of adaptability, instead of rule taking.
Item 13.4	3,82	,98	-,024	,029	1,000	,032	,168	-,020	
Item 13.9	1,92	,82	,053	,114	,032	1,000	,130	,243	
Item 13.10	3,26	1,05	,018	,037	,168	,130	1,000	,035	
Item 13.11	2,42	,99	,088	,067	-,020	,243	,035	1,000	***Retained: 13.9, 13.10 and 13.11***

Of all of the scales, the industry dynamics perspective scale was the most problematic. With a reliability score of just 0,38 and very low correlation coefficients across all items, there were clear indications that something was amiss with this scale. The conjecture that the construct was much too broadly defined was further backed up by the factor analysis, in which the items loaded onto three separate factors. One factor (including items 13.2 and 13.3) had to do with the *difficulty of innovating and differentiating* in mature industries. A second factor (including items 13.9 and 13.11, but also 14.11) focused more on the *danger of being an innovator*, as opposed to a second or later mover. The third factor (including items 13.10, 14.10 and 14.1) dealt with the *difficulty of shaping the industry* by any one firm. According to the theoretical framework all these factors should be aligned along the same dimension of industry malleability, or lack thereof, but in the empirical practice respondents reacted differently to each.

In the debriefing sessions with the respondents the main feedback was that the industry dynamics perspective seemed to be focused on everything that strategists cannot do – on the *inability to actually strategize*. Most of the items have been negatively formulated, pointing to the difficulty of innovating and shaping, due to the *nature of industries*. This "defeatist" angle, it was emphasized, held little appeal to executives, even to those who recognized themselves in the theoretical framework as industry dynamics thinkers. The positive "alter-ego" of the "inability to shape and innovate" is "the wisdom of following developments"; this would be a more representative way of putting forward the industry dynamics perspective, according to a number of respondents. Instead of dwelling on all of the potential impediments and difficulties created by the nature of industries, the items should offer a positively formulated way in which executives should *respond* to these conditions. After reviewing the theoretical framework and the formulated items, these comments were accepted as fair criticism – most of the theoretical contributions to the industry dynamics perspective do tend to be pessimistic in tone, throwing cold water on executives who think they can shape the world, instead of outlining an optimistic alternative to the industry leadership perspective.

Therefore, all negatively formulated items were dropped (in particular 13.2 and 13.3). Simultaneously, the construct was tightened to concentrate on the core concept of *playing by the industry rules*. Five new items were formulated centered on the wisdom of following trends instead of trying to set trends. Other elements such as being adaptable and shifting resources out of mature industries (items 13.4 and 13.6) seem associated with the industry dynamics perspective, but as they are not at the heart of it, they were also left out. The five new items were the following:

Item 13.13	Successful firms follow trends; they don't try to create them.
Item 13.14	Firms following industry trends have a higher survival rate than radical innovators.

Item 13.15	Successful firms often copy the ideas of other firms.
Item 13.16	It is a better strategy to give customers what they currently want, than to try to create a new need.
Item 13.17	Successful strategists understand "the industry rules" and play by the rules; adapting their firm to what is possible.

The scores of the Strategy Profiler 4.0 can be found below. With an alpha of 0,67, this scale has made a quantum leap and falls just short of the 0,70 goal. Two items can be deleted to bring the total number of items back to the 6 intended for the Strategy Profiler 4.1, without any negative impact on the reliability (items 13.11 and 13.15). A point of concern is the fact that the 6 items load on to 3 different factors; 4 items line up together (13.9, 13.13, 13.14 and 13.17), while the other 2 are on separate factors.

N = 127 α = 0,67	**Mean**	**SD**	**Inter-item correlations Strategy Profiler 4.0**								**Evaluation**
			Item 13.9	Item 13.10	Item 13.11	Item 13.13	Item 13.14	Item 13.15	Item 13.16	Item 13.17	Alpha is almost sufficient; items 13.15 and 13.11 can be deleted without lowering the reliability.
Item 13.9	1,78	,82	1,000	,251	,290	,228	,126	,069	,212	,267	
Item 13.10	2,94	1,03	,251	1,000	,177	,295	,290	,128	,199	,228	
Item 13.11	2,00	,87	,290	,177	1,000	,268	,000	,326	,131	,146	
Item 13.13	1,98	,78	,228	,295	,268	1,000	,325	,136	,230	,330	
Item 13.14	2,69	,88	,126	,290	,000	,325	1,000	,203	,338	,273	
Item 13.15	2,91	1,17	,069	,128	,326	,136	,203	1,000	,182	,031	***Scale Accepted***
Item 13.16	3,01	,97	,212	,199	,131	,230	,338	,182	1,000	,242	***Retained: All except 13.11 and 13.15***
Item 13.17	3,12	1,18	,267	,228	,146	,330	,273	,031	,242	1,000	

14.2.14 Industry Leadership Perspective: Scale 14

N = 153 α = 0,16	**Mean**	**SD**	**Inter-item correlations Strategy Profiler 1.0**						**Evaluation**
			Item 14.1	Item 14.2	Item 14.3	Item 14.4	Item 14.5	Item 14.6	Alpha is very low; there are no correlation coefficients of interest.
Item 14.1	3,65	1,14	1,000	,038	,040	,086	-,020	,038	Item 14.2 has a very high mean; it is too general for further use. Items 14.3 and 14.5 have a high SD, which is linked to their ambiguity.
Item 14.2	4,34	,94	,038	1,000	,005	,154	,075	,063	
Item 14.3	3,27	1,25	,040	,005	1,000	,133	-,016	,003	
Item 14.4	3,64	1,06	,086	,154	,133	1,000	,064	-,088	All items except 14.1 do not focus on core concept of breaking the industry rules.
Item 14.5	2,99	1,23	-,020	,075	-,016	,064	1,000	-,058	
Item 14.6	3,08	1,10	,038	,063	,003	-,088	-,058	1,000	***Retained: 14.1***

N = 182 α = 0,50	**Mean**	**SD**	**Inter-item correlations Strategy Profiler 2.0**						**Evaluation**
			Item 14.7	Item 14.8	Item 14.9	Item 14.10	Item 14.11	Item 14.12	Alpha is better; items 14.9 and 14.11 have the highest correlation coefficient, while 14.7 has the next highest with this set. The coefficients of 14.12 are acceptable; those of item 14.10 just barely.
Item 14.7	2,99	1,01	1,000	,103	,240	,175	,323	,189	
Item 14.8	3,88	1,00	,103	1,000	-,089	,191	-,160	,174	
Item 14.9	3,34	,97	,240	-,089	1,000	,124	,373	,168	Item 14.8 has a high mean, while it has a negative coefficient with 14.9 and 14.11, so it has been dropped.
Item 14.10	3,64	,96	,175	,191	,124	1,000	-,085	,099	
Item 14.11	3,12	1,12	,323	-,160	,373	-,085	1,000	,061	
Item 14.12	2,95	1,07	,189	,174	,168	,099	,061	1,000	***Retained: All except 14.8***

N = 385 *α = 0,47*	Mean	SD	Inter-item correlations Strategy Profiler 3.0						Evaluation
			Item 14.1	Item 14.7	Item 14.9	Item 14.10	Item 14.11	Item 14.12	
Item 14.1	3,98	,91	1,000	-,038	-,120	,178	-,057	-,002	Alpha is still too low; items 14.7 and 14.9 have the highest coefficient, but 14.10 and 14.11 also have reasonable coefficients with these two. Items 14.1 and 14.12 have very low coefficients and are dropped. Both focus too much on the nature of industries, as opposed to what strategist should do. ***Retained: 14.7, 14.9, 14.10 and 14.11***
Item 14.7	3,02	1,05	-,038	1,000	,306	,262	,258	,040	
Item 14.9	3,52	,98	-,120	,306	1,000	,136	,202	,149	
Item 14.10	3,56	1,06	,178	,262	,136	1,000	,164	,039	
Item 14.11	3,26	1,03	-,057	,258	,202	,164	1,000	-,038	
Item 14.12	2,81	1,10	-,002	,040	,149	,039	-,038	1,000	

As with the industry dynamics perspective, this scale was also too broadly defined, sweeping in different aspects related to the concept of industry malleability, such as making a profit despite the industry structure, leading industry developments, rejecting industry maturity and ignoring industry opinion. Although the theoretical framework recognized the same fundamental assumption in all these concepts – that the environment can be shaped by individual firms – this was a much too abstract and loosely defined concept to be the red thread of a consistent perspective. As became clear in the debriefing sessions, respondents' views on the *nature of industries* (malleable or not; restrictive or not; always potentially profitable or not) seemed to be only loosely linked to their views on whether firms should pursue a strategy of *rule breaking* or *rule following*. In other words, while executives might have certain ideas about the plasticity of industries and potential room for innovation, this was hardly correlated with their opinion on whether to be an industry leader or a follower.

Just as with the industry dynamics perspective, therefore, the industry leadership perspective was more tightly defined around the concept of *industry rule breaking*. All items oriented towards characterizing the nature of industries were dropped (items 14.1 and 14.12) and 4 new items were drawn up emphasizing the most successful way for strategists to *respond to the industry context,* namely by creating trends instead of following them. This brought the total number of items in this scale to 8.

Item 14.13	Successful firms don't follow the trends; they create them.
Item 14.14	Successful firms avoid copying the ideas of other firms; they prefer to experiment and innovate themselves.
Item 14.15	It is a better strategy to create a new customer need, than to focus on satisfying their current demands.
Item 14.16	Successful strategists understand "the industry rules", but try to break them, doing what no one had thought possible.

The scores of the Strategy Profiler 4.0 can be found below. With an alpha of 0,76, this scale is now satisfactory. As deletion of items 14.15 and 14.16 has no negative impact on the reliability, these two will no longer be included in the Strategy Profiler 4.1.

N = 127 *α = 0,76*	Mean	SD	Inter-item correlations Strategy Profiler 4.0								Evaluation
			Item 14.7	Item 14.9	Item 14.10	Item 14.11	Item 14.13	Item 14.14	Item 14.15	Item 14.16	Alpha is sufficient; items 14.15 and 14.16 can be deleted without the alpha deteriorating.
Item 14.7	3,27	1,00	1,000	,427	,359	,260	,306	,414	,288	,191	
Item 14.9	3,55	,93	,427	1,000	,300	,434	,461	,244	,227	,223	
Item 14.10	3,69	,98	,359	,300	1,000	,275	,459	,374	,279	,315	
Item 14.11	3,65	1,04	,260	,434	,275	1,000	,363	,269	,132	,150	
Item 14.13	3,99	,86	,306	,461	,459	,363	1,000	,351	,157	,194	
Item 14.14	3,10	1,21	,414	,244	,374	,269	,351	1,000	,192	,062	***Scale Accepted***
Item 14.15	2,55	,92	,288	,227	,279	,132	,157	,192	1,000	,117	***Retained: All except 14.15 and 14.16***
Item 14.16	4,06	,86	,191	,223	,315	,150	,194	,062	,117	1,000	

14.2.15 Organizational Leadership Perspective: Scale 15

N = 153 *α = 0,58*	Mean	SD	Inter-item correlations Strategy Profiler 1.0						Evaluation
			Item 15.1	Item 15.2	Item 15.3	Item 15.4	Item 15.5	Item 15.6	Alpha is low; items 15.1 and 15.2 have the highest correlation coefficient. Item 15.3 has the next highest with this set.
Item 15.1	2,40	1,11	1,000	,338	,328	,140	,081	,062	
Item 15.2	3,43	1,14	,338	1,000	,235	,095	,255	,256	However, 15.1 and 15.4 have a low mean; they are formulated too sharply.
Item 15.3	3,72	1,21	,328	,235	1,000	,101	,331	,015	The high SD of 15.2 and 15.3 point toward ambiguity. Items 15.5 and 15.6 are both acceptable, in terms of mean, SD and coefficients.
Item 15.4	2,46	1,07	,140	,095	,101	1,000	,202	,103	
Item 15.5	3,60	1,06	,081	,255	,331	,202	1,000	,248	
Item 15.6	3,35	1,08	,062	,256	,015	,103	,248	1,000	***Retained: 15.5***

N = 182 *α = 0,69*	Mean	SD	Inter-item correlations Strategy Profiler 2.0						Evaluation
			Item 15.7	Item 15.8	Item 15.9	Item 15.10	Item 15.11	Item 15.12	Alpha is almost sufficient; all items have high correlation coefficients with each other, suggesting this set should be largely retained.
Item 15.7	3,04	1,21	1,000	,373	,468	,310	,169	,307	
Item 15.8	2,69	1,08	,373	1,000	,145	,292	,205	,453	Item 15.11 has the lowest coefficients and the alpha increases slightly if it is dropped.
Item 15.9	3,73	1,11	,468	,145	1,000	,257	,158	,262	
Item 15.10	2,47	,98	,310	,292	,257	1,000	,193	,144	
Item 15.11	3,57	1,09	,169	,205	,158	,193	1,000	,197	
Item 15.12	3,36	1,05	,307	,453	,262	,144	,197	1,000	***Retained: All except 15.11***

N = 385 *α = 0,66*	Mean	SD	Inter-item correlations Strategy Profiler 3.0						Evaluation
			Item 15.5	Item 15.7	Item 15.8	Item 15.9	Item 15.10	Item 15.12	Alpha has not improved; yet all items have high correlation coefficients with one another.
Item 15.5	3,51	1,23	1,000	,241	,163	,390	,297	,154	
Item 15.7	3,23	1,14	,241	1,000	,323	,340	,298	,223	Two sub-groups can be distinguished; 15.8 and 15.12 have a high coefficient, as they both deal with the leader/CEO. The other items focus on top-down decision-making.
Item 15.8	2,95	1,19	,163	,323	1,000	,219	,148	,355	
Item 15.9	3,78	1,06	,390	,340	,219	1,000	,226	,211	
Item 15.10	2,55	1,02	,297	,298	,148	,226	1,000	,146	
Item 15.12	3,45	1,09	,154	,223	,355	,211	,146	1,000	***Retained: 15.5, 15.7, 15.9 and 15.10***

While this scale has a reliability-score that is almost sufficient, the factor analysis revealed that the items loaded on to two separate factors. Items 15.5, 15.7, 15.9 and 15.10 all nicely grouped together on one factor (together, but inversely, with items 16.4, 16.5, 16.7 and 16.10), while items 15.8 and 15.12 loaded on to a different factor (together, but inversely, with item 16.8). This result was evaluated and compared to the feedback given by the respondents in the debriefing sessions. From this it could be deduced that the second set of items all had in common that they dealt with the *role of the leader/CEO*, while the first set of factors was focused on the *concentration of strategy-making* within the top management team. Stated differently, the second set was about the *top person*, while the first set was about the process of *top-down strategizing*. While these two factors are closely associated with each other, both in theory and in the responses of the participants, they are different concepts. And bringing them both together under the heading of the organizational leadership perspective creates just that level of heterogeneity amongst the items that the reliability of the scale remains under the desired level.

Therefore it was decided to tighten up the organizational leadership perspective construct, by zeroing in on the core concept of *strategy-making concentration within the top management team*. The organizational leadership perspective focuses on the interaction between the top management team and the rest of the organization, advocating top-down strategy-making, as opposed to wide-spread involvement and initiative throughout the organization. In this way, the term 'organizational leadership' has been more stringently defined as the executives at the head of the organization, without necessarily limiting this to only one person (the CEO). Of course, the CEO will have a particular role within the top management team, but this perspective does not detail what this role should be (e.g. autocratic vs. oligarchic).

The conclusion was that the four items about top-down strategizing could be retained, while item 15.6, which had been previously dropped, should be reinstated as fitting item. Further, three new items were formulated, to have enough room for error. This resulted in a total of 8 items for this scale in the Strategy Profiler 4.0.

Item 15.13	In strategy-making, top management should be in the lead, with some support from lower levels.
Item 15.14	In successful firms, a few top managers are the real strategists.
Item 15.15	In successful firms, strategy is not made democratically; it is made and then sold by top management.

N = 127 ***α = 0,80***	**Mean**	**SD**	**Inter-item correlations Strategy Profiler 4.0**								**Evaluation**
			Item 15.5	Item 15.6	Item 15.7	Item 15.9	Item 15.10	Item 15.13	Item 15.14	Item 15.15	
Item 15.5	3,56	1,21	1,000	,366	,355	,532	,302	,512	,266	,427	Alpha is satisfactory; deleting items 15.6 and 15.14 lowers the alpha just slightly to 0,79.
Item 15.6	3,36	1,03	,366	1,000	,270	,412	,248	,297	,155	,253	
Item 15.7	3,80	1,01	,355	,270	1,000	,304	,222	,422	,176	,333	
Item 15.9	2,87	1,00	,532	,412	,304	1,000	,341	,464	,433	,498	
Item 15.10	3,54	,92	,302	,248	,222	,341	1,000	,374	,209	,243	
Item 15.13	3,75	,98	,512	,297	,422	,464	,374	1,000	,230	,410	***Scale Accepted***
Item 15.14	2,97	1,17	,266	,155	,176	,433	,209	,230	1,000	,390	***Retained: All except 15.6 and 15.14***
Item 15.15	2,97	1,11	,427	,253	,333	,498	,243	,410	,390	1,000	

The scores of the Strategy Profiler 4.0 can be found above. With an alpha of 0,80, it can be concluded that the measures taken to tighten the construct have been successful. All items

contribute to the reliability and all items load on to the same factor. As it was the intention to reduce the set of items to a maximum of 6 for the Strategy Profiler 4.1, items 15.6 and 15.14 have been selected for deletion. Dropping these two only leads to a slight decrease in reliability to an alpha of 0,79.

14.2.16 Organizational Dynamics Perspective: Scale 16

N = 153 *α = 0,25*	Mean	SD	Inter-item correlations Strategy Profiler 1.0						Evaluation
			Item 16.1	Item 16.2	Item 16.3	Item 16.4	Item 16.5	Item 16.6	Alpha is very low; items 16.1 and 16.3 have the highest correlation coefficient, but both have low means, as they are stated quite negatively. Items 16.5 and 16.6 have the next highest coefficient. Item 16.4 also has high coefficients with this set. Item 16.2 has a very high mean and has a negative coefficient with all others. ***Retained: 16.4, 16.5 and 16.6***
Item 16.1	2,14	1,04	1,000	-,118	,423	,004	,042	-,033	
Item 16.2	4,23	,91	-,118	1,000	-,084	-,064	-,018	-,022	
Item 16.3	2,25	1,13	,423	-,084	1,000	-,075	,001	,008	
Item 16.4	3,26	,94	,004	-,064	-,075	1,000	,222	,179	
Item 16.5	3,15	1,35	,042	-,018	,001	,222	1,000	,251	
Item 16.6	4,07	,86	-,033	-,022	,008	,179	,251	1,000	

N = 182 *α = 0,39*	Mean	SD	Inter-item correlations Strategy Profiler 2.0						Evaluation
			Item 16.7	Item 16.8	Item 16.9	Item 16.10	Item 16.11	Item 16.12	Alpha is very low; items 16.7 and 16.11 have the highest coefficient, but both have very high means. Item 16.10 has the next highest coefficient with this set. Items 16.9 and 16.12 also have very high means and low SDs, pointing to a lack of discriminant power. Item 16.8 should have been discarded, but 16.11 was due to high mean. ***Retained: 16.7, 16.8 and 16.10***
Item 16.7	4,48	,70	1,000	-,013	,179	,240	,303	,104	
Item 16.8	3,03	1,12	-,013	1,000	-,008	,128	-,045	,101	
Item 16.9	4,41	,89	,179	-,008	1,000	,014	-,029	,148	
Item 16.10	3,42	,99	,240	,128	,014	1,000	,214	-,046	
Item 16.11	4,47	,75	,303	-,045	-,029	,214	1,000	,140	
Item 16.12	4,02	,88	,104	,101	,148	-,046	,140	1,000	

N = 385 *α = 0,65*	Mean	SD	Inter-item correlations Strategy Profiler 3.0						Evaluation
			Item 16.4	Item 16.5	Item 16.6	Item 16.7	Item 16.8	Item 16.10	Alpha is almost sufficient; all items have high correlation coefficients with one another, except 16.8. The means of 16.6 and 16.7 are rather high, pointing to a potential lack of discriminant power. ***Retained: All except 16.8***
Item 16.4	3,46	,93	1,000	,227	,228	,176	,157	,320	
Item 16.5	3,40	1,29	,227	1,000	,236	,290	,066	,383	
Item 16.6	4,25	,84	,228	,236	1,000	,332	,064	,221	
Item 16.7	4,29	,82	,176	,290	,332	1,000	-,009	,313	
Item 16.8	2,67	1,15	,157	,066	,064	-,009	1,000	,142	
Item 16.10	3,40	1,04	,320	,383	,221	,313	,142	1,000	

Similar to the discussion surrounding the organizational leadership perspective, here too a distinction needs to be made between the role of the leader/CEO and the concentration of strategy-making within the top management team. As the factor analysis revealed, item 16.8 was loading on to a different factor (the role of the leader) than the other items. Therefore the boundaries of the organizational dynamics perspective were slightly tightened to center on the core concept of *widespread organizational involvement in strategy-making*, leaving out of the discussion whether the organization can do without a strong central leader or not.

Yet, while dropping item 16.8 would be a good step towards developing a more clearly defined construct and a more reliable measurement scale, this would not have been

enough to reach the level of reliability desired. Therefore it was decided to add three new items, concentrating more clearly on the core concept of "bottom up participation in strategy-making". This resulted in a total of 8 items for this scale in the Strategy Profiler 4.0, leaving some room for Darwinian survival of the fittest during the process.

Item 16.13	In strategy-making, top management should facilitate wide-spread involvement throughout the organization.
Item 16.14	In successful firms, top managers know that the best strategies will emerge out of discussions throughout the organization.
Item 16.15	In successful firms, strategy is not made autocratically by top management, but through more democratic participation.

The scores of the Strategy Profiler 4.0 can be found below. All three new items have high correlation coefficients with the other items, bringing the alpha to 0,79. To reduce the set of items for the Strategy Profiler 4.1, items 16.5 and 16.6 have been selected for deletion, as their absence only has a marginal impact on the reliability, bringing the alpha down to 0,78.

N = 127 α = 0,79	**Mean**	**SD**	**Inter-item correlations Strategy Profiler 4.0**								**Evaluation**
			Item 16.5	Item 16.6	Item 16.7	Item 16.9	Item 16.10	Item 16.13	Item 16.14	Item 16.15	
Item 16.5	3,95	,94	1,000	,372	,355	,327	,449	,525	,263	,434	Alpha is sufficient. Items 16.5 and 16.6 can be deleted with only a marginal drop in the alpha to 0,78.
Item 16.6	3,39	1,26	,372	1,000	,342	,234	,346	,283	,226	,218	
Item 16.7	4,14	,92	,355	,342	1,000	,337	,188	,345	,338	,208	
Item 16.9	4,36	,75	,327	,234	,337	1,000	,309	,366	,366	,292	
Item 16.10	3,31	,97	,449	,346	,188	,309	1,000	,430	,245	,310	
Item 16.13	3,85	1,06	,525	,283	,345	,366	,430	1,000	,462	,408	***Scale Accepted***
Item 16.14	3,76	,95	,263	,226	,338	,366	,245	,462	1,000	,308	***Retained: All except 16.5 and 16.6***
Item 16.15	3,48	1,05	,434	,218	,208	,292	,310	,408	,308	1,000	

14.2.17 Global Convergence Perspective: Scale 17

N = 153 α = 0,61	**Mean**	**SD**	**Inter-item correlations Strategy Profiler 1.0**						**Evaluation**
			Item 17.1	Item 17.2	Item 17.3	Item 17.4	Item 17.5	Item 17.6	
Item 17.1	3,00	1,11	1,000	,225	,267	,572	,084	,211	Alpha is almost sufficient; items 17.1 and 17.4 have the highest correlation coefficient. Item 17.3 has the next highest with this set.
Item 17.2	3,07	1,07	,225	1,000	,182	,131	,226	,261	Items 17.3 and 17.5 also have a high coefficient with each other, but 17.5 doesn't with 17.1 and 17.4.
Item 17.3	4,06	,95	,267	,182	1,000	,218	,367	,147	Items 17.2 and 17.6 have the lowest coefficients and are therefore dropped.
Item 17.4	3,14	1,00	,572	,131	,218	1,000	,069	,152	
Item 17.5	4,31	,77	,084	,226	,367	,069	1,000	-,010	
Item 17.6	2,99	1,17	,211	,261	,147	,152	-,010	1,000	***Retained: 17.1 and 17.3***

N = 182 *α = 0,53*	Mean	SD	Inter-item correlations Strategy Profiler 2.0						Evaluation
			Item 17.7	Item 17.8	Item 17.9	Item 17.10	Item 17.11	Item 17.12	Alpha is low; items 17.7 and 17.12 have the highest coefficient together, while 17.11 has the next highest with this set, followed by 17.10.
Item 17.7	1,97	1,12	1,000	,159	,095	,173	,218	,301	
Item 17.8	3,38	1,09	,159	1,000	,024	,110	,122	,137	Items 17.8 and 17.9 have the lowest coefficients, focusing too much on the nature of international markets and cross-border synergy.
Item 17.9	2,55	1,09	,095	,024	1,000	,240	,189	,158	
Item 17.10	3,29	1,07	,173	,110	,240	1,000	,106	,120	Item 17.7 has a very low mean.
Item 17.11	2,40	1,04	,218	,122	,189	,106	1,000	,206	
Item 17.12	2,74	1,24	,301	,137	,158	,120	,206	1,000	***Retained: 17.7, 17.10, 17.11 and 17.12***

N = 385 *α = 0,60*	Mean	SD	Inter-item correlations Strategy Profiler 3.0						Evaluation
			Item 17.1	Item 17.3	Item 17.7	Item 17.10	Item 17.11	Item 17.12	Alpha has not improved; items 17.1 and 17.7 have the highest coefficient with one another; 17.11 and 17.12 have the next highest with this set.
Item 17.1	2,81	1,09	1,000	,142	,400	,167	,321	,200	
Item 17.3	3,99	,98	,142	1,000	,263	,217	,160	,098	Items 17.3 and 17.10 focus too much on the nature of international competition and cross-border synergizing, instead of on global standardization.
Item 17.7	2,14	1,13	,400	,263	1,000	,188	,236	,207	
Item 17.10	3,29	1,06	,167	,217	,188	1,000	,148	,211	
Item 17.11	2,39	1,09	,321	,160	,236	,148	1,000	,127	
Item 17.12	3,02	1,26	,200	,098	,207	,211	,127	1,000	***Retained: 17.1, 17.7, 17.11 and 17.12***

In developing this scale, again the factor analysis revealed that the items were loading on to two separate factors. On the one hand, a large number of items grouped together that deal with the issue of *global standardization* of products and strategies (i.e. items 17.1, 17.7 and 17.11, and inversely 18.1, 18.4 and 18.8). On the other hand, two other items aligned with each other that have to do with the issue of *global coordination* (i.e. items 17.3 and 17.10). In the theoretical framework, these two aspects of globalization – increased *international similarity* leading to global standardization and increased *international integration* leading to global coordination – are identified and treated separately, yet it is assumed that supporters of the global convergence perspective believe in both simultaneously. However, while views on the one issue are strongly linked to views on the other, they do not match entirely, resulting in a global convergence perspective construct that is not internally consistent enough.

In the feedback from the participants in the debriefing sessions it became clear that global standardization excited quite a bit more debate than the issue of global coordination. Similar to the discussion on the integrated organization perspective, most respondents held a rather positive view about cooperation across national boundaries within a firm (see items 17.3, 17.5 and 17.10). Almost no executives were against synergizing, sharing and working together across borders. There was a bit more disagreement about the need for global centralized direction versus local autonomy, but this discussion was more or less a repetition of the portfolio organization – integrated organization debate. However, views really started to differ once the topic of global standardization was brought forward. A strong trade-off was recognized between, on the one hand, the simplicity and economies of scale offered by global standardization, and on the other hand, the adaptability and sensitivity of a local responsiveness approach.

Therefore, to acknowledge the importance of the international standardization-adaptation issue, while not revisiting the autonomy-integration issue of scales 9 and 10, the definition of the global convergence perspective was tightened to focus on the core concept of global standardization of products, processes and strategies. Concepts such as increased international similarity, cross-border coordination, global centralization and the nationless

firm are all closely associated with this perspective, but are not at its heart. This meant that only four items could be retained from the Strategy Profiler 3.0. At the same time, this opportunity could be used to reinstate item 17.4 that had been accidentally dropped after the Strategy Profiler 1.0, due to a programming error. To ensure that a reliable set of items would emerge, three new items were created, centered on the core concept of global standardization. This resulted in a total of 8 items for this scale in the Strategy Profiler 4.0.

Item 17.13	The most successful international firms use the same standardized approach everywhere around the world.
Item 17.14	International firms should only adapt their products and processes if the foreign market conditions force them to.
Item 17.15	First rule of international success: "Standardize, unless foreign market circumstances force you to localize".

The scores of the Strategy Profiler 4.0 can be found below. With an alpha of 0,73, this scale is now satisfactory. As two items need to be deleted for the Strategy Profiler 4.1, items 17.7 and 17.11 have been selected. Dropping these two does not only have no impact on the reliability, but it also gets rid of the only two items not loading on to the same factor in the factor analysis.

N = 127 α = 0,73	**Mean**	**SD**	**Inter-item correlations Strategy Profiler 4.0**								**Evaluation**
			Item 17.1	Item 17.4	Item 17.7	Item 17.11	Item 17.12	Item 17.13	Item 17.14	Item 17.15	
Item 17.1	2,89	,94	1,000	,170	,354	,303	,545	,461	,316	,453	Alpha is sufficient. Items 17.7 and 17.11 can be deleted without any impact on the reliability.
Item 17.4	2,50	1,15	,170	1,000	,220	,261	,074	,179	,061	,134	
Item 17.7	2,39	1,02	,354	,220	1,000	,133	,204	,209	,193	,168	
Item 17.11	3,60	1,16	,303	,261	,133	1,000	,154	,328	,220	,248	
Item 17.12	3,23	,88	,545	,074	,204	,154	1,000	,446	,202	,323	
Item 17.13	2,67	1,09	,461	,179	,209	,328	,446	1,000	,243	,328	***Scale Accepted***
Item 17.14	2,82	1,09	,316	,061	,193	,220	,202	,243	1,000	,247	***Retained: All except 17.7 and 17.11***
Item 17.15	3,09	1,13	,453	,134	,168	,248	,323	,328	,247	1,000	

14.2.18 International Diversity Perspective: Scale 18

N = 153 α = 0,54	**Mean**	**SD**	**Inter-item correlations Strategy Profiler 1.0**						**Evaluation**
			Item 18.1	Item 18.2	Item 18.3	Item 18.4	Item 18.5	Item 18.6	
Item 18.1	3,76	,98	1,000	,117	,105	,459	,318	,066	Alpha is low; items 18.1 and 18.4 have the highest correlation coefficient. Item 18.4 has the next highest with this set, followed by 18.2.
Item 18.2	3,45	1,24	,117	1,000	,010	,106	,177	,269	
Item 18.3	2,16	,96	,105	,010	1,000	-,076	,051	,176	Item 18.3 has a very low mean and low coefficients; it is too extremely stated and should be dropped.
Item 18.4	3,65	1,01	,459	,106	-,076	1,000	,287	,094	
Item 18.5	3,09	1,04	,318	,177	,051	,287	1,000	,114	Item 18.6 has low coefficients with the top two items.
Item 18.6	3,26	1,18	,066	,269	,176	,094	,114	1,000	***Retained: 18.1, 18.2, 18.4 and 18.5***

N = 182 *α = 0,36*	Mean	SD	Inter-item correlations Strategy Profiler 2.0						Evaluation
			Item 18.7	Item 18.8	Item 18.9	Item 18.10	Item 18.11	Item 18.12	
Item 18.7	4,09	,92	1,000	,169	-,056	-,022	,004	,019	Alpha is very low; only items 18.8 and 18.12 have a significant coefficient together. Items 18.7, 18.9 and 18.10 are too much about the international environment and organizational decentralization, instead of local adaptation. Item 18.11 is too ambiguously stated. ***Retained: 18.8 and 18.12***
Item 18.8	4,12	,86	,169	1,000	,095	,080	,158	,222	
Item 18.9	3,38	1,09	-,056	,095	1,000	,111	-,013	,126	
Item 18.10	3,01	1,11	-,022	,080	,111	1,000	,163	,052	
Item 18.11	2,70	1,12	,004	,158	-,013	,163	1,000	,063	
Item 18.12	3,67	1,01	,019	,222	,126	,052	,063	1,000	

N = 385 *α = 0,62*	Mean	SD	Inter-item correlations Strategy Profiler 3.0						Evaluation
			Item 18.1	Item 18.2	Item 18.4	Item 18.5	Item 18.8	Item 18.12	
Item 18.1	3,87	,87	1,000	,153	,561	,189	,230	,312	Alpha still too low; items 18.1 and 18.4 still have the highest coefficient with one another; 18.8 also has high coefficients with this set. Item 18.12 also has high coefficients with the above set, but it loads on to a different factor. Items 18.2 and 18.5 have the lowest coefficients; they focus too much on the international environment and international organization. ***Retained: 18.1, 18.4 and 18.8***
Item 18.2	4,02	,96	,153	1,000	,162	,021	,328	,078	
Item 18.4	3,84	,84	,561	,162	1,000	,203	,273	,392	
Item 18.5	3,42	,92	,189	,021	,203	1,000	,024	,182	
Item 18.8	4,13	,83	,230	,328	,273	,024	1,000	,070	
Item 18.12	3,70	1,03	,312	,078	,392	,182	,070	1,000	

As with the global convergence scale, the factor analysis revealed that not all items were loading on to the identical factor as was the intention. Three items (18.1, 18.4 and 18.8) were loading on to the same factor (but inversely) as the *global standardization* items 17.1, 17.7 and 17.11. These items were all oriented towards the issue of *local adaptation*. The other three items were not loading on to any of the factors, indicating that they were insufficiently related to other items and even to each other.

On the basis of the feedback from the respondents it became clear that the international diversity perspective scale was suffering from the same ambiguity as the global convergence scale. In both cases, people's views on the two main aspects of globalization – similarity and integration – were not as strongly linked as expected. While the theoretical framework suggested that executives' beliefs about international similarity/diversity would be aligned with their beliefs about international integration/fragmentation, in this group of respondents this connection was not strong enough to consider both elements as intricate core concepts of the same construct. Although there seems to be a significant correlation between people's views on the need for *local adaptation* to international differences and the need for *local autonomy* for foreign subsidiaries, opinions on these two issues are still too varied to speak of one perspective that can be measured along one dimension. Therefore, this scale has been tightened to focus on the core concept of local adaptation of products, processes and strategies, to accommodate international diversity. This is consistent with the refocusing of the global convergence perspective scale in the previous section.

This means that the three items dealing with local adaptability (items 18.1, 18.4 and 18.8) can be retained, while items about the nature of the international environment (18.2) and the required level of local organization and autonomy (18.5 and 18.12) should be dropped. Five new items were formulated around the central concept of local adaptation, bringing the total number of items in the Strategy Profiler 4.0 to 8.

Item 18.13	International firms should allow the corporate culture to be diverse, adapting to the various countries of operation.
Item 18.14	Successful international firms blend into foreign markets and act almost like local companies.
Item 18.15	First rule of international success: "Localize, unless global scale advantages force you to standardize."
Item 18.16	The most successful international firms are masters at tailoring their products and processes to meet local conditions.
Item 18.17	Even if a globally standardized product sells well, tailoring it to local needs could make it sell better.

The scores of the Strategy Profiler 4.0 can be found below. With an alpha of 0,68, this scale almost passes the 0,70 level which was set as the objective. To reduce the set of items to the six required for the Strategy Profiler 4.1, items 18.8 and 18.13 have been selected. Not only does their deletion have almost no impact on the reliability (a slight fall to an alpha of 0,67), but both items also load on to a different factor in the factor analysis. This scale can now be considered acceptable.

N = 127 ***α = 0,68***	**Mean**	**SD**	**Inter-item correlations Strategy Profiler 4.0**								**Evaluation**
			Item 18.1	Item 18.4	Item 18.8	Item 18.13	Item 18.14	Item 18.15	Item 18.16	Item 18.17	Alpha is almost satisfactory. Dropping 18.8 and 18.13 lead to a marginal decline of the alpha to 0,67.
Item 18.1	4,04	,78	1,000	,484	,158	,245	,201	,250	,393	,374	
Item 18.4	3,94	,76	,484	1,000	,308	,407	,261	,252	,387	,274	
Item 18.8	4,15	,82	,158	,308	1,000	,122	,038	,155	,184	,192	
Item 18.13	3,72	1,18	,245	,407	,122	1,000	,168	,140	,193	,099	
Item 18.14	3,89	1,01	,201	,261	,038	,168	1,000	,212	,250	,179	
Item 18.15	3,36	1,07	,250	,252	,155	,140	,212	1,000	,187	,124	***Scale Accepted***
Item 18.16	4,06	,85	,393	,387	,184	,193	,250	,187	1,000	,146	***Retained: All except 18.8 and 18.13***
Item 18.17	4,39	,74	,374	,274	,192	,099	,179	,124	,146	1,000	

14.2.19 Shareholder Value Perspective: Scale 19

N = 153 ***α = 0,69***	**Mean**	**SD**	**Inter-item correlations Strategy Profiler 1.0**						**Evaluation**
			Item 19.1	Item 19.2	Item 19.3	Item 19.4	Item 19.5	Item 19.6	Alpha is almost sufficient; items 19.1 and 19.5 have the highest correlation coefficient. Item 19.3 has the next highest with this set, followed by 19.4.
Item 19.1	3,25	1,17	1,000	,183	,474	,456	,591	,154	
Item 19.2	3,11	1,18	,183	1,000	,087	-,039	,197	,088	Item 19.6 has a low mean and low coefficients; it is too extremely stated and should be dropped.
Item 19.3	3,13	1,32	,474	,087	1,000	,460	,507	,078	
Item 19.4	2,60	1,19	,456	-,039	,460	1,000	,437	,266	Item 19.2 has low coefficients with all other items.
Item 19.5	3,47	1,12	,591	,197	,507	,437	1,000	,035	
Item 19.6	2,08	1,05	,154	,088	,078	,266	,035	1,000	***Retained: 19.1, 19.3, 19.4 and 19.5***

N = 182 *α = 0,69*	Mean	SD	Inter-item correlations Strategy Profiler 2.0						Evaluation
			Item 19.7	Item 19.8	Item 19.9	Item 19.10	Item 19.11	Item 19.12	Alpha is almost sufficient; all items have high coefficients with each other except 19.10, that is ambiguously formulated. As items 19.9 and 19.12 had the highest negative correlation with stakeholder values items, they were retained. All items have a low mean, but this could be due to a continental European sample bias. ***Retained: 19.9 and 19.12***
Item 19.7	2,00	1,08	1,000	,250	,453	,109	,385	,363	
Item 19.8	3,40	1,21	,250	1,000	,253	,176	,137	,353	
Item 19.9	1,77	,87	,453	,253	1,000	,000	,383	,354	
Item 19.10	3,05	1,18	,109	,176	,000	1,000	,025	,168	
Item 19.11	1,64	,80	,385	,137	,383	,025	1,000	,322	
Item 19.12	1,74	,79	,363	,353	,354	,168	,322	1,000	

N = 385 *α = 0,71*	Mean	SD	Inter-item correlations Strategy Profiler 3.0						Evaluation
			Item 19.1	Item 19.3	Item 19.4	Item 19.5	Item 19.9	Item 19.12	Alpha is sufficient, but the items fall into two separate groups; 19.1, 19.3, 19.4 and 19.5 have high coefficients with each other, while 19.8 and 19.12 also have a high coefficient with each other, but not with the others. The first group has very high SDs (potential ambiguity), the second group low means (unpopular). ***Retained: 19.1, 19.5, 19.9 and 19.12***
Item 19.1	3,24	1,21	1,000	,442	,479	,524	,131	,128	
Item 19.3	3,19	1,22	,442	1,000	,321	,384	,060	,000	
Item 19.4	2,77	1,17	,479	,321	1,000	,370	,227	,172	
Item 19.5	3,52	1,12	,524	,384	,370	1,000	,058	,061	
Item 19.9	1,60	,83	,131	,060	,227	,058	1,000	,391	
Item 19.12	1,71	,86	,128	,000	,172	,061	,391	1,000	

While this scale was one of the few reaching the reliability level intended, the factor analysis was again quite revealing. As could already be deduced from the correlation coefficients, the items loaded on to two separate factors. On the one hand, the top four items (19.1, 19.3, 19.4 and 19.5) grouped together, as they all shared a strong view on the *nature* and *purpose of firms*. These items all focused on the fundamental character of firms as instruments for investors to make money. On the other hand, the two other items (19.8 and 19.12) loaded on the same factor, but inversely, as items 20.1, 20.9, 20.10, 20.11 and 20.12. These two items focused on the *responsibilities* and *objectives* of firms and made statements about the extent to which firms should pursue profitability over other objectives. As the factor analysis made clear, views along these two axes were not highly enough correlated for them to be regarded as one factor, which would require one of the two to be selected as the core concept around which the scale could be concentrated.

In the feedback from the respondents in the debriefing sessions it emerged that there were quite a few instances where these views did not coincide. Some executives who felt quite at ease arguing that the primary purpose of firms is to create shareholder value also strongly believed in setting objectives that balance the interests of all stakeholders. This again underlined the need to focus the shareholder value perspective construct on only one of these two concepts. The selection was not difficult, as the same criterion was used as with the previous scales: which belief has the biggest impact on executives' actual behavior? This is usually also the issue that will trigger the most discussion between people. In this case, the discussion about the best way to view that nature and purpose of firms generally invoked some interested discussion, but was largely seen as a topic of armchair conceptualization; the real debate unfolded once the actual responsibilities and objectives were subsequently discussed. It was on these practical decisions that a sense of choice was acknowledged and that positions were defended. Therefore, it is on this core concept of organizational responsibilities and objectives that this scale will be centered.

The consequence has been that the two items in the Strategy Profiler 3.0 that focus on responsibilities and objectives should be retained and complemented by at least four more of

the same nature. And actually, in the Strategy Profiler 2.0 all but item 19.10 fit this description and can therefore be reinstated in the Strategy Profiler 4.0, bringing the total to 5 (19.7, 19.8, 19.9, 19.11 and 19.12). Of the remaining items, the two that were the closest to objective-setting, 19.1 and 19.5, have also been retained, bringing the total number of items in the Strategy Profiler 4.0 to 7.

The scores of the Strategy Profiler 4.0 can be found below. With an alpha of 0,59, this scale is still not satisfactory. In the factor analysis one of the reasons for this insufficient level of reliability becomes clear; the seven items still load on to two separate factors. Items 19.1, 19.5 and 19.7 load on to one factor, as all seem to be stressing the concept of *shareholder value*. The other items load on to the same factor as most of the stakeholder values items, as they focus on a particular view concerning *corporate responsibilities*.

N = 127 α = 0,59	**Mean**	**SD**	**Inter-item correlations Strategy Profiler 4.0**							**Evaluation**
			Item 19.1	Item 19.5	Item 19.7	Item 19.8	Item 19.9	Item 19.11	Item 19.12	Alpha is still low. Dropping item 19.5 results in an alpha of 0,58.
Item 19.1	3,59	1,04	,267	,326	,105	,014	,132	1,000	,428	
Item 19.5	4,00	,94	,271	,073	,069	,028	,041	,428	1,000	
Item 19.7	2,13	1,03	1,000	,123	,000	,046	,166	,267	,271	
Item 19.8	3,05	1,27	,123	1,000	,224	,217	,347	,326	,073	
Item 19.9	1,59	,85	,000	,224	1,000	,322	,196	,105	,069	
Item 19.11	1,51	,89	,046	,217	,322	1,000	,194	,014	,028	***Scale Provisionally Accepted***
Item 19.12	1,66	,83	,166	,347	,196	,194	1,000	,132	,041	***Retained: All except 19.5***

Another issue could be the highly unbalanced means in this scale, not only in the Strategy Profiler 4.0, but also in the previous versions. It seems item 19.5 is overly popular, also with people who are not generally supporters of the shareholder value perspective, while items 19.9, 19.10 and 19.11 are overly unpopular, potentially because they have been stated too negatively.

Despite all these attempts at explanation, however, what can not be clarified is why more or less the same set of items that were used in the Strategy Profiler 2.0 (all except 19.1 and 19.5) had an alpha of 0,69 there, while here they only had an alpha of 0,57. The only logical explanation is that the sample for the Strategy Profiler 2.0 was more balanced, while the Strategy Profiler 4.0 has a more one-sided sample. The only way to check this is to retain six of the seven items (except 19.5, with its exceptionally high mean) and test the Strategy Profiler 4.1 among a more diverse audience. It is expected that this scale should reach an alpha higher than 0,65 as in the Strategy Profiler 2.0.

14.2.20 Stakeholder Values Perspective: Scale 20

N = 153 *α = 0,66*	Mean	SD	Inter-item correlations Strategy Profiler 1.0						Evaluation
			Item 20.1	Item 20.2	Item 20.3	Item 20.4	Item 20.5	Item 20.6	
Item 20.1	3,80	1,20	1,000	-,012	,331	,256	,326	,216	Alpha is almost sufficient; items 20.3 and 20.4 have the highest correlation coefficient. Item 20.1 has the next highest with this set, followed by 20.5 and 20.6.
Item 20.2	3,21	1,14	-,012	1,000	,037	,041	,049	,152	Item 20.2 has low coefficients with all other items and should be dropped.
Item 20.3	3,68	1,25	,331	,037	1,000	,443	,178	,384	Items 20.1 and 20.5 focus most on objectives.
Item 20.4	3,77	1,19	,256	,041	,443	1,000	,095	,286	
Item 20.5	3,37	1,18	,326	,049	,178	,095	1,000	,251	***Retained: 20.1 and 20.5***
Item 20.6	3,64	1,08	,216	,152	,384	,286	,251	1,000	

N = 182 *α = 0,68*	Mean	SD	Inter-item correlations Strategy Profiler 2.0						Evaluation
			Item 20.7	Item 20.8	Item 20.9	Item 20.10	Item 20.11	Item 20.12	
Item 20.7	4,10	,94	1,000	,222	,204	,349	,277	,428	Alpha is almost sufficient; all items have high coefficients with each other; item 20.8 has the lowest coefficients.
Item 20.8	3,43	1,18	,222	1,000	,204	,277	,254	,227	As item 20.7 has the highest mean and the lowest negative coefficients with the items of the opposite perspective, it has been dropped.
Item 20.9	2,96	1,03	,204	,204	1,000	,362	,218	,243	
Item 20.10	3,66	1,02	,349	,277	,362	1,000	,222	,326	
Item 20.11	3,85	,93	,277	,254	,218	,222	1,000	,225	
Item 20.12	4,03	,86	,428	,227	,243	,326	,225	1,000	***Retained: 20.9, 20.10, 20.11 and 20.12***

N = 385 *α = 0,60*	Mean	SD	Inter-item correlations Strategy Profiler 3.0						Evaluation
			Item 20.1	Item 20.5	Item 20.9	Item 20.10	Item 20.11	Item 20.12	
Item 20.1	4,11	1,07	1,000	,244	,125	,118	,124	,119	Alpha is lower, as the items fall into two separate groups; 20.5 have high coefficients with each other, while 20.9, 20.10, 20.11 and 20.12 also have a high coefficient with each other, but not with the first set.
Item 20.5	3,68	1,05	,244	1,000	,124	,177	,037	,115	This is the same problem as in scale 19.
Item 20.9	3,14	1,01	,125	,124	1,000	,335	,240	,247	
Item 20.10	3,67	,99	,118	,177	,335	1,000	,285	,417	
Item 20.11	3,97	,93	,124	,037	,240	,285	1,000	,261	
Item 20.12	4,16	,82	,119	,115	,247	,417	,261	1,000	***Retained: 20.9, 20.10, 20.11 and 20.12***

The difficulty with this scale is the same as with the shareholder value perspective scale – the items do not load on to the same factor. The latter four items all have high coefficients with one another and load on to the same factor, as they are all concentrated on the issue of organizational responsibilities and objectives. Even item 20.1 loads on to this factor, although its coefficients are lower. Item 20.5, on the other hand, does not load on to any of the factors, as it is more concerned with the purpose of the firm (similar to items 20.3 and 20.4).

Therefore, the same approach is taken here as for scale 19 (shareholder value perspective): the definition of the construct is tightened, with at the center the concept of *social responsibility* and setting objectives that balance *stakeholder interests*. This means that the items in the Strategy Profiler 3.0 that were associated with this core concept – items 20.9, 20.10, 20.11 and 20.12 – have been retained, while the other items in the Strategy Profiler 2.0 (items 20.7 and 20.8) have also been reinstated. To build in some Darwinian redundancy, the

most closely associated item from the first set of items, 20.6, has also been added to the Strategy Profiler 4.0, bringing the total to 7.

The scores of the Strategy Profiler 4.0 can be found below. With an alpha of 0,61, this scale does not do as well as it did in the Strategy Profiler 2.0. Therefore, just as with the previous scale, all items except 20.6 will be retained and retested on a broader audience. It is expected that this scale should reach an alpha above 0,65 as before.

N = 127 *α = 0,61*	Mean	SD	Inter-item correlations Strategy Profiler 4.0							Evaluation
			Item 20.6	Item 20.7	Item 20.8	Item 20.9	Item 20.10	Item 20.11	Item 20.12	
Item 20.6	4,04	,86	1,000	,017	,154	,222	,059	,111	,072	Alpha still insufficient. Item 20.6 can be deleted without affecting the reliability.
Item 20.7	4,31	,78	,017	1,000	,112	,153	,261	,092	,405	
Item 20.8	3,81	1,14	,154	,112	1,000	,154	,224	,203	,307	
Item 20.9	3,14	1,01	,222	,153	,154	1,000	,240	-,045	,332	
Item 20.10	3,80	,94	,059	,261	,224	,240	1,000	,227	,434	
Item 20.11	4,04	,82	,111	,092	,203	-,045	,227	1,000	,165	***Scale Provisionally Accepted***
Item 20.12	4,22	,76	,072	,405	,307	,332	,434	,165	1,000	***Retained: All except 20.6***

In table 14.1 on the next page an overview is presented of all Cronbach alphas of the scales as they were in the Strategy Profiler 3.0 version, then in the 4.0 version and also after deletion of the items that will no longer be used in the Strategy Profiler 4.1. As can be seen, 12 of the 20 scales are above the 0,70 objective, while a total of 17 out of 20 have an alpha above 0,65. Three individual scales do not meet the reliability criterion and will require further fine-tuning.

14.3 COMPARING THE STRATEGY PERSPECTIVE SCALES

With the construction of the scales almost completed, the next question is whether these twenty scales are actually separate dimensions or not. Are they all measuring different phenomena, with hardly any relationship between the scales, or is there a high level of correspondence between a number of the scales, which would mean that they are measuring associated beliefs?

In the theoretical framework it was argued that the twenty scales would be measuring along ten different dimensions, with pairs of opposite perspectives significantly correlated with each other. At the same time, it was expected that the ten dimensions would exhibit a low level of interrelationship with one another.

To check whether the theoretical assumption is correct, two tests were carried out. First, a straight-forward bivariate correlation analysis was performed on all 20 scales. The results of this analysis for both the Strategy Profiler 3.0 and 4.0 are presented in section 14.3.1. Subsequently, a more in-depth factor analysis was conducted, to check whether the items of the 20 scales loaded on to 20 factors, or on to 10 as was assumed up front. The results of the factor analysis for the Strategy Profiler 3.0 and 4.0 will be presented in section 14.3.2.

TABLE 14.1
Reliability Scores Strategy Profiler 3.0, 4.0 & 4.1

	Strategy Perspective	Version 3.0 α N = 385	Version 4.0 α N = 127	Version 4.1 α N = 127
1.	Rational Reasoning (Logic)	0.68	0.69	**0.70**
2.	Generative Reasoning (Creativity)	0.51	**0.77**	**0.77**
3.	Strategic Planning (Deliberateness)	**0.77**	0.68	**0.73**
4.	Strategic Incrementalism (Emergence)	0.51	0.51	0.53
5.	Discontinuous Renewal (Revolution)	0.63	**0.70**	**0.72**
6.	Continuous Renewal (Evolution)	0.69	**0.79**	**0.78**
7.	Outside-In (Markets)	0.47	**0.74**	**0.74**
8.	Inside-Out (Resources)	0.55	0.60	0.66
9.	Portfolio Organization (Responsiveness)	0.61	0.65	0.66
10.	Integrated Organization (Synergy)	0.59	0.67	**0.70**
11.	Discrete Organization (Competition)	0.51	0.66	0.67
12.	Embedded Organization (Cooperation)	0.55	**0.70**	**0.73**
13.	Industry Dynamics (Compliance)	0.38	0.67	0.67
14.	Industry Leadership (Choice)	0.47	**0.76**	**0.76**
15.	Organizational Leadership (Control)	0.66	**0.80**	**0.79**
16.	Organizational Dynamics (Chaos)	0.65	**0.79**	**0.78**
17.	Global Convergence (Globalization)	0.60	**0.73**	**0.73**
18.	International Diversity (Localization)	0.62	0.68	0.67
19.	Shareholder Value (Profitability)	**0.71**	0.59	0.58
20.	Stakeholder Values (Responsibility)	0.60	0.61	0.61

* The darkest boxes are scores >0.70; the medium dark boxes are scores between 0.65 and 0.69.

14.3.1 Correlation Analysis between the Strategy Perspective Scales

In table 14.2 a matrix is depicted, showing the correlations between each of the 20 scales of the Strategy Profiler 3.0 (using the scale numbers of the previous section), on the basis of the 385 respondents in the dataset. In table 14.3 the same correlation analysis is reported, but then on the basis of the Strategy Profiler 4.0 scales and sample. The cells in the matrix have

TABLE 14.2
Correlation Analysis between Strategy Perspective Scales in Strategy Profiler 3.0

	Perspective Scale	1	2	3	4	5	6	7	8	9	10
1	Rational Reasoning	1,000	**-0,296 *****	0,441 ***	-0,261***	0,021	0,103**	-0,106**	0,263***	-0,068	0,219***
2	Generative Reasoning	**-0,296 *****	1,000	-0,106 **	0,291***	0,153***	0,006	0,153***	-0,017	0,134***	-0,030
3	Strategic Planning	0,441 ***	-0,106 **	1,000	**-0,544*****	0,069	0,151***	-0,051	0,329***	-0,165***	0,354***
4	Strategic Incrementalism	-0,261 ***	0,291 ***	**-0,544 *****	1,000	0,025	0,070	0,119**	-0,072	0,258***	-0,184***
5	Discontinuous Renewal	0,021	0,153 ***	0,069	0,025	1,000	**-0,412*****	0,114**	0,048	0,098*	0,037
6	Continuous Renewal	0,103 **	0,006	0,151 ***	0,070	**-0,412*****	1,000	0,065	0,214***	0,065	0,106**
7	Outside-In	-0,106 **	0,153 ***	-0,051	0,119**	0,114**	0,065	1,000	**-0,315*****	0,193***	-0,036
8	Inside-Out	0,263 ***	-0,017	0,329 ***	-0,072	0,048	0,214***	**-0,315*****	1,000	0,007	0,221***
9	Portfolio Organization	-0,068	0,134 ***	-0,165 ***	0,258***	0,098*	0,065	0,193***	0,007	1,000	**-0,450*****
10	Integrated Organization	0,219 ***	-0,030	0,354 ***	-0,184***	0,037	0,106**	-0,036	0,221***	**-0,450*****	1,000
11	Discrete Organization	0,097 *	-0,015	-0,066	0,097*	0,180***	-0,059	0,049	0,021	0,108**	-0,104**
12	Embedded Organization	-0,030	0,162 ***	0,129 **	0,009	-0,032	0,150***	-0,025	0,236***	0,056	0,146***
13	Industry Dynamics	0,118 **	0,022	-0,012	0,132***	0,087*	0,173***	0,051	0,140***	0,087*	0,011
14	Industry Leadership	0,074	0,163 ***	0,156 ***	-0,008	0,188***	0,065	0,037	0,185***	0,007	0,135***
15	Org. Leadership	0,244 ***	-0,043	0,270 ***	-0,127**	0,315***	-0,094*	0,079	0,179***	-0,191***	0,313***
16	Organizational Dynamics	0,019	0,214 ***	0,039	0,104**	-0,113**	0,161***	0,059	0,078	0,201***	-0,056
17	Global Convergence	0,181 ***	0,003	0,207 ***	-0,155***	0,233***	-0,040	0,072	0,137***	-0,055	0,254***
18	International Diversity	0,060	0,145 ***	0,135 ***	0,143***	-0,073	0,151***	-0,015	0,210***	0,202***	0,082
19	Shareholder Value	0,227 ***	-0,099 *	0,198 ***	-0,091*	0,149***	-0,003	0,080	0,167***	0,036	0,107**
20	Stakeholder Values	-0,012	0,193 ***	0,100 *	0,118**	0,024	0,236***	0,054	0,264***	0,133***	0,127**

***: Correlation is significant at the level p<0,01; **: Correlation is significant at the level p<0,05; *: Correlation is significant at the level p<0,10
Dark cells indicate the correlation between opposite strategy perspectives; Lightly shaded cells indicate other correlations with a coefficient > 0,300

TABLE 14.2 (continued)
Correlation Analysis between Strategy Perspective Scales in Strategy Profiler 3.0

	Perspective Scale	11	12	13	14	15	16	17	18	19	20
1	Rational Reasoning	0,097 *	-0,030	0,118 **	0,074	0,244 ***	0,019	0,181 ***	0,060	0,227 ***	-0,012
2	Generative Reasoning	-0,015	0,162 ***	0,022	0,163 ***	-0,043	0,214 ***	0,003	0,145 ***	-0,099 *	0,193 ***
3	Strategic Planning	-0,066	0,129 **	-0,012	0,156 ***	0,270 ***	0,039	0,207 ***	0,135 ***	0,198 ***	0,100 *
4	Strategic Incrementalism	0,097 *	0,009	0,132 ***	-0,008	-0,127 **	0,104 **	-0,155 ***	0,143 ***	-0,091 *	0,118 **
5	Discontinuous Renewal	0,180 ***	-0,032	0,087 *	0,188 ***	0,315 ***	-0,113 **	0,233 ***	-0,073	0,149 ***	0,024
6	Continuous Renewal	-0,059	0,150 ***	0,173 ***	0,065	-0,094 *	0,161 ***	-0,040	0,151 ***	-0,003	0,236 ***
7	Outside-In	0,049	-0,025	0,051	0,037	0,079	0,059	0,072	-0,015	0,080	0,054
8	Inside-Out	0,021	0,236 ***	0,140 ***	0,185 ***	0,179 ***	0,078	0,137 ***	0,210 ***	0,167 ***	0,264 ***
9	Portfolio Organization	0,108 **	0,056	0,087 *	0,007	-0,191 ***	0,201 ***	-0,055	0,202 ***	0,036	0,133 ***
10	Integrated Organization	-0,104 **	0,146 ***	0,011	0,135 ***	0,313 ***	-0,056	0,254 ***	0,082	0,107 **	0,127 **
11	Discrete Organization	1,000	**-0,519** ***	0,254 ***	-0,051	0,172 ***	-0,201 ***	0,206 ***	-0,161 ***	0,185 ***	-0,199 ***
12	Embedded Organization	**-0,519** ***	1,000	-0,022	0,165 ***	-0,106 **	0,241 ***	-0,030	0,225 ***	-0,061	0,343 ***
13	Industry Dynamics	0,254 ***	-0,022	1,000	**-0,202** ***	0,182 ***	-0,099 *	0,089 *	-0,057	0,106 **	0,004
14	Industry Leadership	-0,051	0,165 ***	**-0,202** ***	1,000	0,031	0,145 ***	0,151 ***	0,147 ***	0,104 **	0,214 ***
15	Org. Leadership	0,172 ***	-0,106 **	0,182 ***	0,031	1,000	**-0,429** ***	0,266 ***	-0,037	0,252 ***	0,001
16	Organizational Dynamics	-0,201 ***	0,241 ***	-0,099 *	0,145 ***	**-0,429** ***	1,000	-0,049	0,285 ***	-0,094 *	0,247 ***
17	Global Convergence	0,206 ***	-0,030	0,089 *	0,151 ***	0,266 ***	-0,049	1,000	**-0,230** ***	0,276 ***	-0,001
18	International Diversity	-0,161 ***	0,225 ***	-0,057	0,147 ***	-0,037	0,285 ***	**-0,230** ***	1,000	-0,048	0,279 ***
19	Shareholder Value	0,185 ***	-0,061	0,106 **	0,104 **	0,252 ***	-0,094 *	0,276 ***	-0,048	1,000	**-0,231** ***
20	Stakeholder Values	-0,199 ***	0,343 ***	0,004	0,214 ***	0,001	0,247 ***	-0,001	0,279 ***	**-0,231** ***	1,000

***: Correlation is significant at the level p<0,01; **: Correlation is significant at the level p<0,05; *: Correlation is significant at the level p<0,10
Dark cells indicate the correlation between opposite strategy perspectives; lightly shaded cells indicate other correlations with a coefficient > 0,300

TABLE 14.3
Correlation Analysis between Strategy Perspective Scales in Strategy Profiler 4.0

	Perspective Scale	1	2	3	4	5	6	7	8	9	10
1	Rational Reasoning	1,000	**-0,395 *****	0,413 ***	-0,189**	-0,085	0,179**	-0,141	0,311***	-0,114	0,33***
2	Generative Reasoning	**-0,395 *****	1,000	-0,179 **	0,411***	0,21**	0,036	0,249***	0,073	0,27***	-0,1
3	Strategic Planning	0,413 ***	-0,179 **	1,000	**-0,357*****	-0,122	0,175**	-0,029	0,123	-0,144	0,322***
4	Strategic Incrementalism	-0,189 **	0,411 ***	**-0,357 *****	1,000	0,201**	-0,077	0,243***	0,078	0,296***	-0,118
5	Discontinuous Renewal	-0,085	0,21 **	-0,122	0,201**	1,000	**-0,542*****	0,444***	-0,078	0,021	0,159*
6	Continuous Renewal	0,179 **	0,036	0,175 **	-0,077	**-0,542*****	1,000	-0,161*	0,203**	0,153*	-0,101
7	Outside-In	-0,141	0,249 ***	-0,029	0,243***	0,444***	-0,161*	1,000	**-0,369*****	0,221**	-0,016
8	Inside-Out	0,311 ***	0,073	0,123	0,078	-0,078	0,203**	**-0,369*****	1,000	0,058	0,253***
9	Portfolio Organization	-0,114	0,27 ***	-0,144	0,296***	0,021	0,153*	0,221**	0,058	1,000	**-0,282*****
10	Integrated Organization	0,33 ***	-0,1	0,322 ***	-0,118	0,159*	-0,101	-0,016	0,253***	**-0,282*****	1,000
11	Discrete Organization	-0,013	0,251 ***	-0,152 *	0,229***	0,245***	0,109	0,271***	0,118	0,15*	0,052
12	Embedded Organization	0,231 ***	0,046	0,354 ***	0,011	-0,052	-0,021	-0,032	0,135	0,006	0,298***
13	Industry Dynamics	0,299 ***	-0,193 **	0,075	-0,027	0,047	0,169*	0,115	0,201**	0,118	0,206**
14	Industry Leadership	-0,076	0,466 ***	0,08	0,199**	0,125	0,006	0,162*	-0,017	0,154*	-0,01
15	Org. Leadership	0,418 ***	-0,171 **	0,185 **	0,024	0,322***	-0,033	0,116	0,224***	-0,107	0,376***
16	Organizational Dynamics	-0,132	0,22 **	0,136	0,066	-0,198**	0,139	0,012	-0,075	0,079	0,006
17	Global Convergence	0,207 **	0,063	0,300 ***	-0,076	0,019	0,21**	0,041	0,141	-0,061	0,314***
18	International Diversity	-0,031	0,226 ***	-0,027	0,364***	-0,011	0,185**	0,037	0,181**	0,309***	-0,007
19	Shareholder Value	0,085	-0,076	0,066	-0,094	0,184**	-0,156*	0,205**	-0,048	0,06	0,074
20	Stakeholder Values	-0,109	0,265 ***	0,101	0,239***	0,083	0,087	0,211**	0,074	0,003	0,163*

***: Correlation is significant at the level p<0,01; **: Correlation is significant at the level p<0,05; *: Correlation is significant at the level p<0,10
Dark cells indicate the correlation between opposite strategy perspectives; lightly shaded cells indicate other correlations with a coefficient > 0,300

TABLE 14.3 (continued)
Correlation Analysis between Strategy Perspective Scales in Strategy Profiler 4.0

	Perspective Scale	11	12	13	14	15	16	17	18	19	20
1	Rational Reasoning	-0,013	0,231***	0,299***	-0,076	0,418***	-0,132	0,207**	-0,031	0,085	-0,109
2	Generative Reasoning	0,251***	0,046	-0,193**	0,466***	-0,171**	0,220**	0,063	0,226***	-0,076	0,265***
3	Strategic Planning	-0,152*	0,354***	0,075	0,08	0,185**	0,136	0,300***	-0,027	0,066	0,101
4	Strategic Incrementalism	0,229***	0,011	-0,027	0,199**	0,024	0,066	-0,076	0,364***	-0,094	0,239***
5	Discontinuous Renewal	0,245***	-0,052	0,047	0,125	0,322***	-0,198**	0,019	-0,011	0,184**	0,083
6	Continuous Renewal	0,109	-0,021	0,169*	0,006	-0,033	0,139	0,210**	0,185**	-0,156*	0,087
7	Outside-In	0,271***	-0,032	0,115	0,162*	0,116	0,012	0,041	0,037	0,205**	0,211**
8	Inside-Out	0,118	0,135	0,201**	-0,017	0,224***	-0,075	0,141	0,181**	-0,048	0,074
9	Portfolio Organization	0,150*	0,006	0,118	0,154*	-0,107	0,079	-0,061	0,309***	0,060	0,003
10	Integrated Organization	0,052	0,298***	0,206**	-0,01	0,376***	0,006	0,314***	-0,007	0,074	0,163*
11	Discrete Organization	1,000	**-0,475*** **	0,036	0,121	0,252***	-0,234***	0,193**	0,181**	0,124	-0,026
12	Embedded Organization	**-0,475*** **	1,000	0,192**	0,135	-0,044	0,276***	0,091	0,056	-0,019	0,232***
13	Industry Dynamics	0,036	0,192**	1,000	**-0,519*** **	0,194**	-0,056	0,209**	0,141	0,148*	0,070
14	Industry Leadership	0,121	0,135	**-0,519*** **	1,000	-0,039	0,194**	0,116	0,134	-0,079	0,173**
15	Org. Leadership	0,252***	-0,044	0,194**	-0,039	1,000	**-0,613*** **	0,209**	-0,106	-0,015	0,094
16	Organizational Dynamics	-0,234***	0,276***	-0,056	0,194**	**-0,613*** **	1,000	0,090	0,201**	-0,033	0,152*
17	Global Convergence	0,193**	0,091	0,209**	0,116	0,209**	0,09	1,000	**-0,199** **	0,084	0,050
18	International Diversity	0,181**	0,056	0,141	0,134	-0,106	0,201**	**-0,199** **	1,000	-0,010	0,161*
19	Shareholder Value	0,124	-0,019	0,148*	-0,079	-0,015	-0,033	0,084	-0,010	1,000	**-0,409*** **
20	Stakeholder Values	-0,026	0,232***	0,07	0,173**	0,094	0,152*	0,05	0,161*	**-0,409*** **	1,000

***: Correlation is significant at the level p<0,01; **: Correlation is significant at the level p<0,05; *: Correlation is significant at the level p<0,10
Dark cells indicate the correlation between opposite strategy perspectives; lightly shaded cells indicate other correlations with a coefficient > 0,300

been made white where the correlation coefficient is given between the two opposite perspectives.

The first overall observation that can be made is that in the Strategy Profiler 3.0 the expected correlations between the opposite strategy perspectives are all significant, but not all as high as they ideally should be. In the Strategy Profiler 4.0 these correlations are much improved.

The second overall observation is that in both the Strategy Profiler 3.0 and the 4.0 there are quite a few other significant correlations between the twenty scales, but none that point to an unforeseen overlap between the scales. Both of these observations require some further examination.

Correlations between Opposite Scales

According to the theoretical framework, there are ten strategy dimensions, with two opposite perspectives per dimension. This means that one would expect a highly negative correlation coefficient between the opposite scales. As can be seen in table 14.2 and 14.3, all opposite scales have a highly significant negative correlation, with a coefficient of at least -0,2. These parts of tables 14.2 and 14.3 have been summarized in table 14.4.

TABLE 14.4
Correlations between Opposite Scales

Scale	Strategy Perspective	Version 3.0 N = 385	Version 4.0 N = 127
1 - 2	Rational Reasoning - Generative Reasoning	-0,30	**-0,40**
3 - 4	Strategic Planning - Strategic Incrementalism	**-0,54**	-0,36
5 - 6	Discontinuous Renewal - Continuous Renewal	**-0,41**	**-0,54**
7 - 8	Outside-In - Inside-Out	-0,32	-0,37
9 - 10	Portfolio Organization - Integrated Organization	**-0,45**	-0,28
11 -12	Discrete Organization - Embedded Organization	**-0,52**	**-0,48**
13 - 14	Industry Dynamics - Industry Leadership	-0,20	**-0,52**
15 - 16	Organizational Leadership - Organizational Dynamics	**-0,43**	**-0,61**
17 - 18	Global Convergence - International Diversity	-0,23	-0,20
19 - 20	Shareholder Value - Stakeholder Values	-0,23	**-0,41**

* The dark boxes are negative correlations >-0,40; the medium dark boxes are between -0,35 and -0,40.

However, if each set of opposing strategy perspectives were truly two poles of one dimension, it could be expected that a negative correlation coefficient of more than -0,4 would be found. In the Strategy Profiler 3.0, this was only the case in five of the ten dimensions. In the five other cases the pairs of theoretical opposites were not lining up along the same dimension to the extent anticipated. This conclusion fits with the findings of the previous section, where the reliability of the Strategy Profiler 3.0 scales for rational –

generative reasoning (scales 1 – 2), outside-in – inside-out (scales 7 – 8) and industry dynamics – industry leadership (scales 13 – 14) were not sufficient. As these scales were too broadly defined in the Strategy Profiler 3.0 (low internal consistency), it can be understood that they also showed a low level of consistency / alignment vis-à-vis their theoretical opposite.

But also the scales for global converge – international diversity (scales 17 – 18) and shareholder value – stakeholder values (scales 19 – 20) do not have the negative correlation coefficients expected, even though the scales were (close to being) reliable. This could mean two things. Either the theoretical framework is faulty and the strategy perspectives are not truly each others' opposites (*internal validity error*) or the Strategy Profiler 3.0 scales were not measuring the strategy perspectives well enough, despite the reasonable reliability score (*external validity error*). As became clear in the discussion about upgrading the scales in the Strategy Profiler 4.0 version, the latter seemed to be the case. This issue of almost reliable scales but too widely defined constructs will be further discussed in the factor analysis in the next section.

In the Strategy Profiler 4.0 the overall picture is much improved. Of the five pairs of scales that didn't have sufficiently high negative correlation coefficients, four are now at a satisfactory level of at least -0,35. Only two scales are not as negatively correlated as the theoretical framework suggests they should be, namely the scales for portfolio organization – integrated organization (scales 9 – 10) and global convergence – international diversity (scales 17 – 18) . However, all four scales have sufficient reliability scores, so something else must be going on.

Again this could mean two things; either it must be accepted that the theoretical framework is incorrect (*internal validity error*) or the Strategy Profiler 4.0 scales are not adequately measuring the strategy perspectives (*external validity error*). What the source of the low correlation coefficient could be will be discussed further, after the presentation of the factor analysis. However, it is interest to note that the scale for portfolio organization – integrated organization was highly negatively correlated in the Strategy Profiler 3.0, so it seems odd that in the Strategy Profiler 4.0 this is suddenly different. This might point to a third source of "error", namely the non-random nature of the Strategy Profiler 4.0 sample. As described in chapter 13, all Strategy Profiler 4.0 respondents are from one international organization, Bank ABC. It is a fundamental building block of this company's strategy to manage two tensions: between responsiveness and synergy, as well as between globalization and localization – precisely the two that are not highly negatively correlated in their responses. In line with the approach advocated in De Wit and Meyer (1999, 2005), Bank ABC's strategy is to resolve the tension between the opposite approaches by trying to find a way to do both at the same time. It is not unlikely that the explicit belief within the company that these two sets of theoretical opposites can be reconciled has had an impact on the negative correlation between the opposite perspectives. This possibility will need to be checked as soon as enough executives from different organizations have participated in the Strategy Profiler 4.1.

Correlations between Scales along Different Dimensions

Besides the expected significant correlations between the opposite perspective scales, there are quite a few other significant correlations to be found, both in the Strategy Profiler 3.0 and 4.0. If these correlations are very high, then the various scales might be measuring along the same dimension, without this being theoretically anticipated. For the measurement instrument, a high level of overlap between the scales would mean that the two might be condensable to one compound scale.

However, as can be seen in the Strategy Profiler 3.0 correlation matrix, there is only one instance where the correlation coefficient is more than 0,4 or -0,4, and that is between the rational reasoning and the strategic planning perspectives. However, these two scales have different correlations with other scales, while they load on to different factors in the factor analysis, which both indicate that while the two perspectives are associated, they are distinct enough to warrant separate measurement.

In the case of the Strategy Profiler 4.0 there are four instances were the correlation coefficients are more than (-)0,4. Yet, this result is much less meaningful than for the Strategy Profiler 3.0, as these correlations could be entirely due to the non-representative nature of the sample. As all respondents are from Bank ABC, the link between two perspectives might be completely due to the specific belief system within the company. Therefore, it is not possible to generalize the correlation between certain beliefs/perspectives within Bank ABC to the population at large.

As for correlations between scales that are not high, but moderate, this could point to some higher level clustering of strategy perspectives around a smaller number of "strategy paradigms" or "strategy types". In other words, the scales measure along different dimensions, but certain combinations between scores along the dimensions are more likely than others (e.g. those that score high on scale A, also score high on B and C). Given the high incidence of moderate correlations in tables 14.2 and 14.3, a cluster analysis was carried out on the Strategy Profiler 3.0 data to see if clear "meta-perspectives" could be identified. This was not done for the Strategy Profiler 4.0 data, as any meta-perspectives found would only be Bank ABC specific and not generalizable to the broader population. The results of this cluster analysis will be reported in section 14.4.

14.3.2 Factor Analysis of the Strategy Perspective Scales

Besides a straight-forward correlation analysis of the 20 strategy perspective scales, a factor analysis was also conducted to check whether the 20 scales were measuring along 10 separate dimensions as anticipated. For this reason the number of factors was set at 20 (the maximum expected number of factors if all scales would load on to a separate factor), while it was supposed that all items in the scales would load on to 10 factors. This analysis was carried out on the Strategy Profiler 3.0 dataset, which is presented in table 14.5, and on the Strategy Profiler 4.0 dataset, which is presented in table 14.6. In both cases, only the highest loadings are reported in the tables, while values between -0,25 and 0,25 are not shown.

Besides checking whether the twenty scales could actually be grouped into 10 principle components (*inter-scale relationships*), the second objective of the factor analysis was to provide extra insight into the extent to which individual items fit with the other items in each scale (*intra-scale relationships*). Where all items of a scale loaded on to the same factor, this pointed towards a high level of internal consistency within the scale. Where one or more items did not load on to the same factor, this pointed toward inconsistency and the necessity to reevaluate the item(s) in question. In the discussion below, both relationships will be touched on, although many of the conclusions about intra-scale inconsistencies have already reviewed and discussed in the scale construction section (14.2).

Intra-Scale Relationships

As can be seen in table 14.5, not all items in the Strategy Profiler 3.0 that make up the same scale load on to the same factors. In only two cases do all items behave as expected (scales 1 and 3). In four cases there is one "stray" item (scales 6, 9, 16 and 20) and in six cases there are two items not loading on to the same factor (scales 2, 8, 11, 15, 18, 20). As discussed in

the scale construction section, these scales generally had a reasonably high reliability (Cronbach alpha > 0,60). Dropping the unsatisfactory items and replacing them with new ones was sufficient to bring the reliability to the intended level.

In eight other cases, however, the factor analysis showed that something more fundamental was needed to develop internally consistent measurement scales. Four scales had only three items loading on to the same factor (scales 4, 5, 7 and 17), while in four other cases the items were spread across three or four different factors (scales 10, 12, 13 and14). For these scales it was obvious that somewhere in the construct definition phase, or in the item formulation phase, an unintended level of heterogeneity had manifested itself in the items. Therefore, all eight of these scales were thoroughly examined and restructured in the Strategy Profiler 4.0.

In table 14.6 the results of the factor analysis on the Strategy Profiler 4.0 database can be seen. The number of scales with six items loading onto the same factor has risen to seven (scales 2, 6, 9, 12, 15, 16 and 17), while there are three scales with only one "stray" item (scales 3, 13 and 18). Furthermore, there are six other scales where two items are not loading onto the same factor (scales 5, 8, 11, 14, 19 and 20). These 16 scales all have a reasonably high reliability (alpha > 0,60), although scales 19 and 20 still seem somewhat questionable and need to be tested further on a broader sample.

In four remaining cases, however, the factor analysis points towards a potentially more fundamental inconsistency. The most obvious challenge is the strategic incrementalism scale (scale 4), which also did not have a high Cronbach alpha (0,53). The items belonging to this scale split into two groups, each consisting of three items, loading onto different factors. This might indicate the reason why the reliability of this scale is still so low (see chapter 16 for a conclusion on further research). Less expectedly, the scales for the outside-in perspective (scale 7) and integrated organization perspective (scale 10) also have two equal groups of items loading onto different factors. However, both of these scales have a sufficiently high reliability score. For these scales, too, future research will need to determine why this pattern has been observed. The most puzzling result, however, is the rational reasoning perspective scale (scale 1), which had six items loading nicely onto one factor in the Strategy Profiler 3.0 dataset, while in the 4.0 dataset the items are suddenly spread over four different factors, although the items have hardly changed. Again, this could point to a peculiarity of the Bank ABC sample, so broader testing is required.

TABLE 14.5
Factor Analysis of Items in Strategy Profiler 3.0

	Factors									
Item	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
1.1	0.57									
2.1		0.36								
1.2	0.62									
2.2		0.65								
1.4	0.62									
2.4		0.37								
1.7	0.56									
1.8	0.46									
2.8										
2.9			0.49							
1.11	0.38									
2.11		0.60								
4.1					0.37					
3.2				0.53						
3.3				0.45						
4.3					0.47					
3.4				0.40						
4.7						0.44				
3.9				0.64						
4.9				-0.73						
3.10				0.72						
4.10				-0.44						
3.11				0.72						
4.11				-0.40						
5.1					-0.47					
6.1					0.66					
5.2					-0.35					
6.2					0.63					
5.3						0.55				
6.4					0.61					
5.5					-0.44					
6.5					0.61					
6.6			0.40							
5.7										
6.11					0.38					
5.12			0.28							
7.1										
7.2							-0.37			
8.3							0.59			
8.4							0.32			
8.5							0.52			
7.5							-0.62			
7.9							-0.40			
8.9										
8.10							0.43			
7.11										
7.12								0.32		
8.12										
9.1									-0.53	
10.1									0.56	
9.2								0.46		
10.2								-0.28		
9.5								0.54		
10.5										
9.6								0.60		
10.6									0.51	
9.11								0.52		
10.11										
9.12								0.56		
10.12								-0.37		

TABLE 14.5 (continued from left page)
Factor Analysis of Items in Strategy Profiler 3.0

	Factors									
Item	**11**	**12**	**13**	**14**	**15**	**16**	**17**	**18**	**19**	**20**
1.1										
2.1										
1.2										
2.2										
1.4										
2.4										
1.7										
1.8										
2.8										
2.9										
1.11										
2.11										
4.1										
3.2										
3.3										
4.3										
3.4										
4.7										
3.9										
4.9										
3.10										
4.10										
3.11										
4.11										
5.1										
6.1										
5.2										
6.2										
5.3										
6.4										
5.5										
6.5										
6.6										
5.7					0.52					
6.11										
5.12										
7.1			0.32							
7.2										
8.3										
8.4										
8.5										
7.5										
7.9										
8.9										
8.10										
7.11								-0.29		
7.12										
8.12			0.25							
9.1										
10.1										
9.2										
10.2										
9.5										
10.5						-0.26				
9.6										
10.6										
9.11										
10.11						-0.35				
9.12										
10.12										

TABLE 14.5 (continued from previous pages)
Factor Analysis of Items in Strategy Profiler 3.0

	Factors									
Item	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
12.1										
11.3										
12.5										
11.6										0.34
12.6										-0.78
12.7										0.81
11.9										0.61
11.10										
11.11										
12.11										
11.12										
12.12										
14.1										
13.2										
13.3										
13.4									0.38	
14.7						0.45				
13.9										
14.9										
13.10										
14.10										
13.11										
14.11										
14.12			-0.26							
16.4										
15.5										
16.5										
16.6										
15.7										
16.7										
15.8										
16.8										
15.9										
15.10										
16.10										
15.12										
17.1										
18.1										
18.2										
17.3										
18.4										
18.5								0.32		
17.7										
16.8										
17.10										
17.11										
17.12										
18.12									0.34	
19.1										
20.1										
19.3										
19.4										
19.5										
20.5										
19.9										
20.9										
20.10										
20.11										
19.12										
20.12										

TABLE 14.5 (continued from left and previous pages)
Factor Analysis of Items in Strategy Profiler 3.0

	Factors									
Item	**11**	**12**	**13**	**14**	**15**	**16**	**17**	**18**	**19**	**20**
12.1			0.47							
11.3	0.46									
12.5										
11.6										
12.6										
12.7										
11.9						0.42				
11.10	0.56									
11.11	0.53									
12.11	-0.49									
11.12	0.65									
12.12	-0.56									
14.1				0.43						
13.2			0.54							
13.3			0.54							
13.4										
14.7										
13.9		0.43								
14.9		-0.32								
13.10				-0.49						
14.10				0.60						
13.11		0.70								
14.11		-0.71								
14.12										
16.4						0.48				
15.5						-0.60				
16.5						0.64				
16.6						0.37				
15.7						-0.45				
16.7						0.48				
15.8					0.59					
16.8					-0.58					
15.9						-0.57				
15.10						-0.52				
16.10						0.58				
15.12					0.60					
17.1							-0.53			
18.1							0.56			
18.2							0.39			
17.3								0.46		
18.4							0.54			
18.5										
17.7							-0.44			
16.8							0.54			
17.10								0.58		
17.11							-0.54			
17.12					0.29					
18.12										
19.1										0.75
20.1									0.42	
19.3										0.66
19.4										0.66
19.5										0.72
20.5										
19.9									-0.63	
20.9									0.52	
20.10									0.61	
20.11									0.48	
19.12									-0.59	
20.12									0.60	

Note 1: Extraction Method: Principle Component Analysis; Rotation Method: Varimax with Kaiser Normalization (rotation converged in 38 iterations); Only coefficients > 0,25 displayed

Note 2: Shaded areas indicate items loading on to common factor as used for composite scale construction

TABLE 14.6
Factor Analysis of Items in Strategy Profiler 4.0

	Factors									
Item	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
1.1		0626								
2.1	.436									
1.2		.441								
2.2	.551									
1.4										
2.4										.396
1.7	-.375									
1.8										
2.11	.544									
1.13	-.566		0.49							
2.13	.644									
2.14	.537									
2.15	.707									
3.2			.455							
3.3			.358							
3.4										
4.7				.384						
3.9			.668							
4.9			-.691							
3.10			.687							
4.10			-.349							
3.11			.629							
4.11										
4.13										
4.14										
4.15			-.412							
5.1					.640					
6.1				.584						
5.2									.413	
6.2				.713						
6.4				.525						
5.5				-.532						
6.5				.632						
5.7				-.537						
6.10				.730						
6.11				.531						
5.12										
5.13				-.696						
5.14				-.543						
6.13				.710						
6.14				.519						
7.2					.540					
8.3						.497				
8.4		.468								
8.5						.656				
7.5						-.441				
7.9					.474					
8.9										
8.10							.680			
7.12					.581					
7.13						-.685				
7.14						-.403				
7.15					.518					
8.13						.641				
8.14						.525				

TABLE 14.6 (continued from left page)
Factor Analysis of Items in Strategy Profiler 4.0

	Factors									
Item	**11**	**12**	**13**	**14**	**15**	**16**	**17**	**18**	**19**	**20**
1.1 2.1 1.2 2.2 1.4 2.4 1.7 1.8 2.11 1.13 2.13 2.14 2.15		.361								.331
3.2 3.3 3.4 4.7 3.9 4.9 3.10 4.10 3.11 4.11 4.13 4.14 4.15				.512			.328 .415 .300			
5.1 6.1 5.2 6.2 6.4 5.5 6.5 5.7 6.10 6.11 5.12 5.13 5.14 6.13 6.14			.507							
7.2 8.3 8.4 8.5 7.5 7.9 8.9 8.10 7.12 7.13 7.14 7.15 8.13 8.14				-.375						

TABLE 14.6 (continued from previous pages)
Factor Analysis of Items in Strategy Profiler 4.0

	Factors									
Item	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
9.2								.421		
10.2										
9.5								.390		
10.5								-.386		
9.6										
9.11								.442		
10.11									.379	
9.12								.518		
10.12								-.444		
9.13								.613		
9.14								.650		
10.13										
10.14			.430							
10.15										
11.3										
12.5							.418			
11.10										-.543
11.11										-.640
12.11										.608
12.12										.579
11.13						.363				
11.14										-.518
11.15										
11.16										-.395
12.13										.662
12.14		.332								
12.15										.385
12.16										.568
12.17										.551
14.7										
13.9										
14.9										
13.10										
14.10										
13.11										
14.11										
13.13										
13.14										
13.15										
13.16										
13.17										
14.13										
14.14										
14.15									.668	
14.16										
16.4										
15.5										
16.5										
15.6										
16.6										
15.7										
16.7										
15.9										
15.10										
16.10										
15.13										
15.14										
15.15										
16.13										
16.14										
16.15										

TABLE 14.6 (continued from left and previous pages)
Factor Analysis of Items in Strategy Profiler 4.0

	Factors									
Item	**11**	**12**	**13**	**14**	**15**	**16**	**17**	**18**	**19**	**20**
9.2										
10.2						.410				
9.5										
10.5										
9.6										
9.11										.372
10.11										
9.12										
10.12										
9.13										
9.14										
10.13						.435				
10.14										
10.15						.413				
11.3										
12.5										
11.10										
11.11										
12.11										
12.12										
11.13										
11.14							.362			
11.15										
11.16										
12.13										
12.14										
12.15										
12.16										
12.17										
14.7	.596									
13.9		.323								
14.9	.342									
13.10			.426							
14.10	.588									
13.11				-.619						
14.11				.637						
13.13		.580								
13.14		.593								
13.15	-.640									
13.16	-.433									
13.17		.577								
14.13	.564									
14.14	.661									
14.15										
14.16			-.450							
16.4					-.591					
15.5					.630					
16.5					-.428					
15.6					.486					
16.6					-.367					
15.7					.398					
16.7					-.339					
15.9					.497					
15.10					.741					
16.10					-.586					
15.13					.603					
15.14					.522					
15.15					.635					
16.13					-.579					
16.14					-.455					
16.15					-.672					

TABLE 14.6 (continued from left and previous pages)
Factor Analysis of Items in Strategy Profiler 4.0

	Factors									
Item	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
17.1										
18.1										
17.4										
18.4										
17.7							.327			
18.8										
17.11										
17.12										
17.13										
17.14										
17.15										
18.13										
18.14										
18.15										
18.16										
18.17										
19.1										
19.5										
20.6										
19.7										
20.7										
19.8										
20.8										
19.9										
20.9										
20.10										
19.11										
20.11										
19.12										
20.12										

TABLE 14.6 (continued from left and previous pages)
Factor Analysis of Items in Strategy Profiler 4.0

	Factors									
Item	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
17.1						.752				
18.1							.634			
17.4						.673				
18.4							.662			
17.7										
18.8							.441			
17.11							-.454			
17.12						.483				
17.13						.688				
17.14						.350				
17.15						.615				
18.13					-.339					
18.14		.503								
18.15							.347			
18.16							.582			
18.17							.430			
19.1									.683	
19.5									.565	
20.6							.283			
19.7									.530	
20.7										.696
19.8								-.541		
20.8								.364		
19.9								-.349		
20.9								.482		
20.10								.571		
19.11								-.363		
20.11			.321							
19.12								-.618		
20.12										

Note 1: Extraction Method: Principle Component Analysis; Rotation Method: Varimax with Kaiser Normalization (rotation converged in 41 iterations); Only coefficients > 0,25 displayed

Note 2: Light shaded squares indicate deleted items. Dark shaded areas indicate items loading on to common factor that can be used for composite scale construction

Inter-Scale Relationships

As mentioned above, it was expected that the items of the twenty scales would actually load on to ten factors, representing the ten dimensions discussed in the theoretical framework. The items of each pair of opposite strategy perspectives, it was anticipated, would be found on the same factor, with the items of one perspective having negative coefficients. In tables 14.5 and 14.6 these groupings of items on one factor have been shaded, but only if at least two items of each of the strategy perspectives are represented. For the Strategy Profiler 3.0 this leads to eight groupings of items, with only scales 1-2 (rational vs. generative reasoning) and 13-14 (industry leadership vs. industry dynamics) missing.

The fact that scales 1 and 2 load on to different factors was essential information for the reformulation of items for the Strategy Profiler 4.0. While both scales seemed to be almost satisfactory, the factor analysis uncovered an inconsistency with the theoretical framework, as the two strategy perspectives were assumed to be opposites, but did not load on to the same factor. This led to a thorough review of the generative reasoning items for the Strategy Profiler 4.0. As can be seen in table 14.6, the new generative reasoning items now load onto the same factor as a number of the rational reasoning items, but as discussed in the previous section, the latter scale is now unfortunately scattered across four factors.

The fact that scales 13 and 14 had items loading on to a variety of factors indicated that the scales were very unfocused and required a considerable amount of tightening up. The fact that the items of the two scales were also not loading on to the same factors was an additional concern, pointing to the need to direct the focusing of both scales towards a common core issue. This led to a major overhaul of the items in both scales (5 new items were added to scale 13 and 4 new items to scale 14) for the Strategy Profiler 4.0. As can be seen in table 14.6, the items of scale 13 now load more consistently onto one factor, while the items of scale 14 do the same onto another factor. However, they do not load on to the same factor. Yet, given the reliability of both scales and the highly negative correlation coefficient between them, this outcome of the factor analysis is not seen as an impetus to reconsider the scales once again.

As for the other 16 scales, it was found that for the Strategy Profiler 3.0 dataset there were a sufficient number of items loading onto eight common factors to make it possible to construct eight composite scales. In these composite scales all items from the two opposite strategy perspectives were merged into one scale by inverting the item scores of one of the two perspectives. As minimal requirement it was determined that each composite scale must contain at least two items from both of the opposite strategy perspectives. These composite scales are described in further detail in table 14.7 below. These scales will be referred to as *strategy dimension scales*, as they measure strategy beliefs ranging from one opposite strategy perspective to the other opposite strategy perspective along a strategy dimension – the dimensions described in the theoretical framework.

These strategy dimension scales were subsequently checked for reliability. As anticipated, the reliability of these eight strategy dimension scales was higher than the reliability of the 16 individual strategy perspective scales. This is particularly important for the purpose of further exploratory research in the next chapter. There, the intention will be to investigate which personal attributes correlate to an individual's strategy perspectives.

While it would ordinarily be best to use the most reliable scales for this exploratory work (i.e. the Strategy Profiler 4.0 scales), the Strategy Profiler 3.0 database of 385 respondents is so much richer in terms of personal attribute variety, that it is strongly preferred. Moreover, the Strategy Profiler 3.0 database comes closest to being a random and representative sample of executives, while the Strategy Profiler 4.0 database, with its focus on only one organization, is much too biased to be used to explore potentially generalizable correlations between personal attributes and strategy beliefs. Therefore, the follow-up

research in the next chapter will only make use of the Strategy Profiler 3.0 database in combination with these 8 strategy dimension scales. For this reason, there was also no reason to construct any composite scales with the Strategy Profiler 4.0 items, although the loadings would have made this easily possible.

It should be noted that not all of the strategy dimension scales in table 14.7 reach the intended alpha of at least 0,70, and therefore any conclusions, however exploratory, must be drawn with suitable caution. Yet, having said this, all eight scales have alphas higher than 0,60, making them robust enough for such exploratory purposes. Only the scales for strategic thinking and the industry context (1, 2, 13 and 14) will have to be dropped for further research purposes on the Strategy Profiler 3.0 dataset, due to their insufficient reliability. Of course, as more data is collected using the Strategy Profiler 4.1, offsetting the bias of Bank ABC, these scales shall be preferred for further research.

TABLE 14.7
Description of the Strategy Dimension Scales in the Strategy Profiler 3.0

No.	Strategy Dimension	Axis (High-Low)	Items	M	SD	α
21	Strategic Programming	Deliberateness – Emergence	3.2; 3.3; 3.4; 3.9; 3.10; 3.11 -4.9; -4.10; -4.11	3,36	0,63	0,81
22	Organizational Continuity	Evolution – Revolution	6.1; 6.2; 6.4; 6.5 -5.1; -5.2; -5.5	3,05	0,61	0,75
23	Resource Leveraging	Resources – Markets	8.3; 8.4; 8.5;8.10 -7.2; -7.5; -7.9	3,40	0,58	0,61
24	Business Unit Autonomy	Responsiveness – Synergy	9.2; 9.5; 9.6; 9.11; 9.12 -10.2; -10.12	2,44	0,60	0,67
25	Firm Independence	Competition – Cooperation	11.3; 11.10; 11.11; 11.12 -12.11; -12.12	2,25	0,56	0,68
26	Strategy-making Dispersion	Chaos – Control	16.4; 16.5; 16.7; 16.10 -15.7; -15.9; -15.10	3,40	0,59	0,71
27	Local Adaptation	Localization – Globalization	18.1; 18.2; 18.4; 18.8 -17.1; -17.7; -17.11	3,79	0,56	0,65
28	Stakeholder Responsibility	Responsibility – Profitability	20.1; 20.9; 20.10; 20.11; 20.12 -19.9; -19.12	3,93	0,53	0,69

As a last check, a straight-forward correlation analysis was carried out between the eight strategy dimension scales (see table 14.8). The conclusion that can be drawn from this analysis backs up the findings of the factor analysis; these eight strategy dimension scales have only a low correlation coefficient, which means that they can truly be seen as separate measurement dimensions.

TABLE 14.8
Correlation Analysis of the Strategy Dimension Scales

	Dimension Scale	21	22	23	24	25	26	27
21	Strategic Programming	1,000						
22	Organizational Continuity	0,044	1,000					
23	Resource Leveraging	0,238 ***	0,087 *	1,000				
24	Business Unit Autonomy	-0,233 ***	0,025	-0,092 *	1,000			
25	Firm Independence	-0,112 **	-0,184 ***	-0,054	0,099 *	1,000		
26	Strategy-Making Dispersion	-0,054	0,202 ***	0,024	0,194 ***	-0,226 ***	1,000	
27	Local Adaptation	-0,136 ***	0,141 ***	0,075	0,132 ***	-0,230 ***	0,195 ***	1,000
28	Stakeholder Responsibility	0,078	0,171 ***	0,178 ***	0,051	-0,296 ***	0,196 ***	0,155 ***

14.4 CLUSTER ANALYSIS ACROSS THE STRATEGY DIMENSION SCALES

So far, the emphasis in this chapter has been on testing the reliability of each strategy perspective scale (and strategy dimension scale) and on determining whether they are sufficiently distinct. The conclusion has been that while there are significant correlations between some of the scales, none of the correlations is high enough to suggest that the scales are actually measuring a common phenomenon. The factor analysis also corroborated the conclusion that the scales can be retained as separate measures.

Yet, while the scales measure clearly distinctive perspectives and dimensions, it is still possible that there might be more fundamental *strategy paradigms* influencing how executives view a number of seemingly separate strategy issues. In other words, there might be "meta-perspectives" that combine a number of perspectives into a more overarching view of strategic issues. For instance, it could be that there is one strategy paradigm that leads executives to score high on scales 21 and 23, intermediate on scale 26 and low on scale 22. If such a system of beliefs, values and norms has many adherents, one would be able to find a cluster of executives with the same "profile" on the strategy dimensions. By looking for clusters of executives with the same profile on more than one dimension, it would be possible to identify which distinctive strategy paradigms seem to exist.

This is exactly what was done as the last step in developing the measurement instrument. The statistical method employed to find out whether the respondents can be clustered into groups of people with the same profile on multiple dimensions is appropriately called cluster analysis. The technique used here is the relatively standard two step approach of first applying a hierarchical clustering procedure to determine the appropriate number of clusters, as well as the cluster centers, after which a non-hierarchical clustering procedure is used to determine the exact cluster membership (Hair et al., 2006).

In this first step the entire sample (in this case the 385 respondents to the Strategy Profiler 3.0) is "hierarchically" divided into two clusters, then three, then four, etcetera, by trying to keep the sum of the squared distances between points (respondents) as low as possible. At a certain moment in this process of splitting in to more and more clusters, the population should break up into a number of reasonably large "lumps". If further splitting only leads to small "pieces" breaking off the big lumps, it is clear that the most appropriate level of clustering has been reached, as only large clusters are meaningful for further examination. If the total group of respondents stays together as one big lump and only very small clusters can be split off, then the conclusion must be drawn that there are no distinctively separate clusters of significance that can be identified.

If the clustering is successful, each cluster will have a mathematical center point, which is then subsequently used as the "cluster seed" in the second step of the procedure. In this step the number of clusters and their seeds are predetermined ("non-hierarchical") and the procedure is intended to determine the optimal cluster membership (in practice, some respondents at the boundary between two clusters might fit better in the other cluster than determined in the first hierarchical clustering).

This entire clustering process was first carried out using eight dimensions – the eight strategy dimensions discussed in the previous section. The intention was to check whether there are any strategy paradigms that run across the entire spectrum of strategy issues. If clusters of strategic thinkers could be found that have similar views on all eight strategy issues, this would point to a few fundamental strategy paradigms dominating peoples' thoughts on a broad basis; there would be just a few types of overarching strategic views. This would lead to a much simpler typology of strategy views than the framework of ten dimensions and twenty perspectives presented in this study. However, the cluster analysis across these eight dimensions did not result in any meaningful division into sizeable sub-groups. There were no discernable clusters, so the conclusion must be that this study has not been able to recognize any strategy paradigms (or if you prefer, meta-perspectives) influencing all major strategic problem-solving, within this particular group of respondents. As the sample is not entirely representative of the broader population of executives, this conclusion can not be immediately generalized. However, given the broad spread of the 385 respondents in this sample, the notion that there might be a simple typology of overarching strategy paradigms has not gained any weight. As the Strategy Profiler 4.1 database is further filled, this cluster analysis should be repeated to see if clusters are found in a larger, more representative sample, but the study has so far created little basis to assume that such strategy paradigms exist.

The next cluster analysis was performed one level of aggregation lower, namely on the three main strategy areas, strategy process, strategy content and strategy context:

- *Strategy process clustering*. As there was no reliable scale for the rational – generative reasoning dimension, there were only two scales left here, the strategic planning – strategic incrementalism scale (the strategic programming dimension) and the continuous – discontinuous renewal scale (the organizational continuity dimension). However, in the theoretical framework it already became quite clear that the organization dynamics – organizational leadership scale (strategy-making dispersion dimension) is highly oriented towards the process aspect of strategy. Therefore it was included as a third dimension for the cluster analysis. The results of this cluster analysis will be reported in section 14.4.1.
- *Strategy content clustering*. Here all three strategy content dimension scales were used: the inside-out – outside-in scale (the resource leveraging dimension), the portfolio – integrated organization scale (the business unit autonomy dimension) and the discrete – embedded organization scale (the firm independence dimension). As this cluster analysis did not lead to any meaningful result, it will not be further presented here. However, the conclusion should drawn, namely that when it comes to strategy content issues there were no distinctive strategist profiles among this group of respondents. This would suggest that it is unlikely that there are discernable, overarching, strategy content paradigms in the broader population of executives, but this hypothesis would need to be tested in follow-up research.
- *Strategy context clustering*. As there was no reliable scale for the industry leadership – industry dynamics dimension, here too there were only two scales left, the organizational dynamics – organizational leadership scale (strategy-making dispersion dimension) and

the international diversity – global convergence scale (local adaptation dimension). However, even if the industry leadership – industry dynamics scale had been available, theoretically it seems quite unlikely that any one strategy paradigm would influence such divergent issues as dealing with the industry, organizational and international contexts. What could be hypothesized, though, is that executives might cluster around particular views on the nature of the "external environment", as well as around views on the nature of the "internal environment". A person's "external environment profile" could be expected to have an impact on their industry context views (industry leadership – industry dynamics), international context views (international diversity – global convergence) and maybe even their network level views (discrete – embedded organization). But as the industry leadership – industry dynamics scale is missing (unreliable), this potential clustering was not further pursued in this study. On the other hand, a person's "internal environment profile" could be expected to have an influence on their organizational context view (organizational dynamics – organizational leadership), the internal organization side of their international context view (international diversity – global convergence) and the internal organizational side of their corporate level strategy view (portfolio – integrated organization). In these two last cases, the theoretical framework already made clear that executives' views on how much should be globalized and synergized had a lot to do with their views on what is organizationally viable, effective and efficient. Therefore, a cluster analysis was performed using these three dimensions. The results will be reported in section 14.4.2.

Moving one level of aggregation lower, many more cluster analyses could be carried out using two dimensions. To be exact, there are 28 combinations possible (8 x 7 / 2 = 28). Each one of these might yield interesting results, giving insight into which combination of perspectives are commonly found in practice. It could also lead to the uncovering of strategy paradigms influencing only two perspectives. While extremely interesting, however, this research would move beyond the scope of this study. Here the objective has been to construct an instrument for measuring executives' strategy views and in this section it has been the intention to check whether this instrument is not unnecessarily complex, given the existence of a few overarching strategy paradigms. The conclusion is that no traces have been found of such fundamental strategy paradigms and that therefore the existing scales seem to be defined at the most appropriate level of complexity. While there are some very exciting results coming out of some of the cluster analyses, and this arena represents a very rich environment for further research, it is beyond the scope of this study to pursue any of this here. Therefore, in chapter 16, the opportunity for further cluster analyses will be revisited, with some suggestions for promising combinations out of the 45 potential two dimension cluster analyses (10 dimensions x 9 / 2 = 45 permutations) and 120 potential three dimension cluster analyses (10 x 9 x 8 / 6 = 120 permutations).

14.4.1 Strategy Process View Clusters

In table 14.9 below, an overview is presented of the cluster analysis using the three dimensions with a strong strategy process aspect. The strategic programming dimension runs from an orientation towards the strategic planning perspective (5) to an orientation towards the strategic incrementalism perspective (1). The organizational continuity dimension runs from the continuous renewal (5) to the discontinuous renewal perspective (1), while the strategy-making dispersion dimension covers the spectrum from the organizational dynamics (5) to the organizational leadership perspective (1).

It was found that the most analytically useful clustering turned up when the total sample was split into 11 clusters. Some of these clusters were extremely small groups of outliers (groups 8 through 11), but other relatively large clusters of executives emerged with a common profile. Any further splitting beyond 11 clusters only resulted in chipping off very small groups from these 11.

Each one of these clusters has been given a descriptive name and will be briefly reviewed below. While the table gives a numerical value to each cluster's average along the three dimensions, it is also possible to give a rougher characterization of each cluster by indicating whether it scores high (H), medium (M) or low (L) on each dimension, compared to the overall average. This letter code has been added to each cluster name as a general indication of the cluster profile. This has also made a rough visualization of the clusters possible, which is depicted in figure 14.1.

TABLE 14.9
Strategy Process View Clusters

Cluster	Cases	Strategic Programming		Organizational Continuity		Strategy-Making Dispersion	
		Mean*	Deviation	Mean*	Deviation	Mean*	Deviation
1. Balanced Strategizing	157	3,56	0,20	3,03	-0,02	3,25	-0,15
2. Participative Planning	68	3,87	0,41	3,30	0,25	3,96	0,56
3. Revolutionary Leadership	53	3,29	-0,07	2,29	-0,76	2,71	-0,69
4. Participative Exploration	36	2,61	-0,75	3,63	0,58	3,87	0,47
5. Participative Innovation	28	2,44	-0,92	2,46	-0,59	3,83	0,43
6. Evolutionary Leadership	19	3,20	-0,12	4,12	1,41	3,04	-0,36
7. Incremental Leadership	13	2,41	-0,95	3,25	0,20	2,82	-0,58
8. Grass-roots Planning	5	3,89	0,53	4,35	1,30	4,50	1,10
9. Top-down Planning	3	4,04	0,68	2,38	-0,67	4,67	1,27
10. Revolutionary Planning	2	4,56	1,20	1,56	-1,49	3,13	-0,27
11. Top-down Innovation	1	1,22	2,14	1,88	-1,17	4,50	1,10
Total	385	3,36		3,05		3,40	

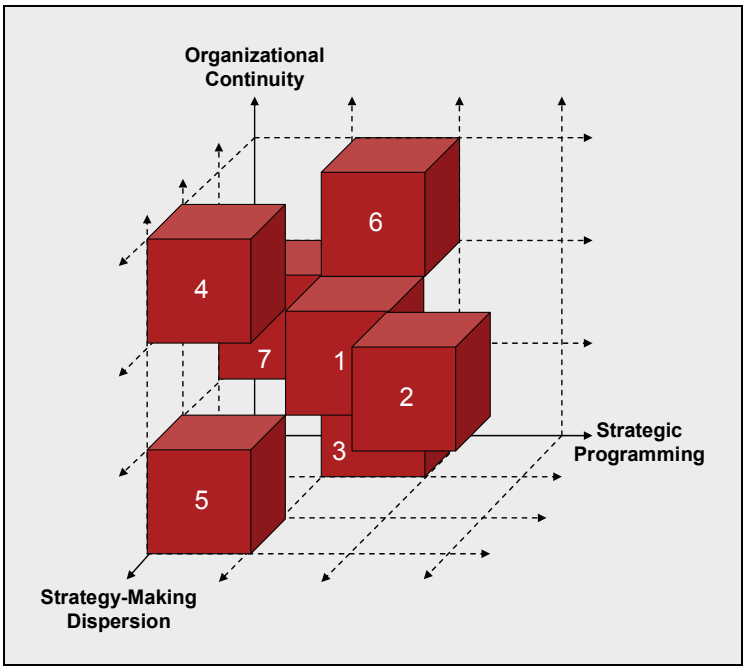
* Note that the means are not meaningful in themselves, as the scales have not been "calibrated". In other words, "3" is not an absolute point; not an empirical middle between the two opposite perspectives. That the mean for strategic programming for this sample is 3,36 could be because the respondents indeed are, on average, more oriented towards strategic planning, but it could also be due to the fact that the items used for this scale were more agreeably formulated. Therefore, it is more useful to measure how each cluster deviates from the overall mean.

1. *Balanced Strategizing (M-M-M)*. The description of the largest cluster (N=157; 41%) can actually be the shortest. This is the group staying close to the middle-of-the-road, taking a balanced view to strategizing. In the theoretical section of this study, no predictions were made of the distribution of views in the population at large, so here it is interesting to see that in this sample all dimensions have a "bulge" of respondents in the middle and "tails" towards the two poles, very similar to a normal distribution. In the next chapter this distribution will be examined in further detail, to hypothesize whether this is representative for executives in general. Here it suffices to say that the measurement instrument itself also biases people to take a middle position – if you need to give 12

items a score of 1 to 5 it is much less likely for respondents to have a cumulative score of 60 (only possible with 12 x 5) than a cumulative score of 30 (many possible combinations). Hence, it is not surprising to see a large number of executives making up this centrist cluster.

2. *Participative Planning (H-M-H)*. The second largest cluster (N=68; 18%) is characterized by a higher than average score on strategic programming and strategy-making dispersion. These are the participative planners, who prefer a broad involvement of organizational members in the strategy development process and would like to do this in a planned manner. They do not have a specific preference for revolutionary or evolutionary change, but want a structured and participative process, as originally advocated by Ackoff (1980).
3. *Revolutionary Leadership (M-L-L)*. The third largest cluster (N= 53; 14%) is characterized by a lower than average score on organizational continuity and strategy-making dispersion. These are the people who believe in revolutionary leadership – a strong person or group of people at the top of the organization who can push through radical strategic changes. While they do not have an inclination towards strategic planning or incrementalism, they clearly prefer a concentration of strategy-making activities at the top, presumably to have the power to push through the necessary strategic renewal measures as quickly and efficiently as possible, similar to the approach advocated by Hamel (1999).
4. *Participative Exploration (L-H-H)*. The fourth largest cluster (N=36; 9%) scores lower than average on strategic programming, but higher than average on organizational continuity and strategy-making dispersion. This preference for strategic incrementalism and continuous renewal points to a mentality of ongoing exploration, in which the future unfolds gradually through continuous experimentation and learning. In this process, these participative explorers believe that a broad range of executives within the organization should be involved, much as advocated by Beinhocker (1999).
5. *Participative Innovation (L-L-H)*. The fifth largest cluster (N=28; 7%) consists of executives with a similar profile to the participative explorers, but then much more revolutionary in their approach. They score higher than average on strategy-making dispersion, pointing to a participative inclination, while scoring lower than average on strategic programming, indicating a preference for an emergent approach. However, in their view the participation and emergence is necessary to realize the needed break-through innovations. This is similar to the approach advocated by Stacey (1993).
6. *Evolutionary Leadership (M-H-L)*. One of the smaller clusters (N=19; 5%) is made up of people with a higher than average score on organizational continuity and a lower than average score on strategy-making dispersion. This is the group that believes in evolutionary leadership – a strong person or group of people at the top of the organization are needed, not to push through radical changes as the revolutionary leadership supporters argue, but actually to guide and guard an organization's development over a prolonged period of time.
7. *Incremental Leadership (L-M-L)*. The last cluster that is big enough to mention (N=13; 3%) is also made up of people that emphasize the concentration of strategy-making activities at the top of the organization. However, these people do not have an inclination towards evolution or revolution, but they do believe strongly in an incrementalist approach. This is like the entrepreneur as organizational leader – single-handedly finding the way forward for the organization.

FIGURE 14.1
Visualization of the Strategy Process View Clusters



The overall conclusion of this cluster analysis, as stated before, is that there do not seem to be simple overarching strategy paradigms on the topic of the strategy process. Many different combinations of strategy perspectives are possible. What figure 14.1 does visualize, however, is that one strategy perspective does not combine well with others – the strategic planning perspective (higher than average on the strategic programming dimension) only seems to be popular in combination with the organizational dynamics perspective (higher than average on the strategy-making dispersion dimension). In other words, if you prefer strategic planning, you will most likely also want to plan in a participative way.

14.4.2 Organization View Clusters

In table 14.10 below, an overview is presented of the cluster analysis using the three "organizational dimensions". These are the three dimensions with a strong view on the best way to structure strategy-making throughout the organization. Broadly speaking, all three run from decentralized to centralized strategy-making. The business unit autonomy dimension runs from an orientation towards the portfolio organization perspective (5) to an orientation towards the integrated organization perspective (1), which is an axis of decentralization – centralization across business units. The local adaptation dimension stretches from the international diversity perspective pole (5) to the global convergence perspective pole (1), which is the axis of decentralization – centralization across national borders. The strategy-making dispersion dimension covers the spectrum from the organizational dynamics (5) to the organizational leadership perspective (1), which is the axis of decentralization – centralization across organizational levels.

It was found that the most analytically useful clustering turned up when the total sample was split into 10 clusters. As with the previous cluster analysis, some of these clusters were extremely small groups of outliers (clusters 6 through 10), but other relatively large clusters of executives emerged with a common profile. Any further splitting beyond 10 clusters only resulted in chipping off very small groups.

Again, each one of the clusters has been given a descriptive name and will be briefly reviewed below. Each has also been given a letter code (high, medium, low) and is depicted in figure 14.2.

TABLE 14.10
Organizational View Clusters

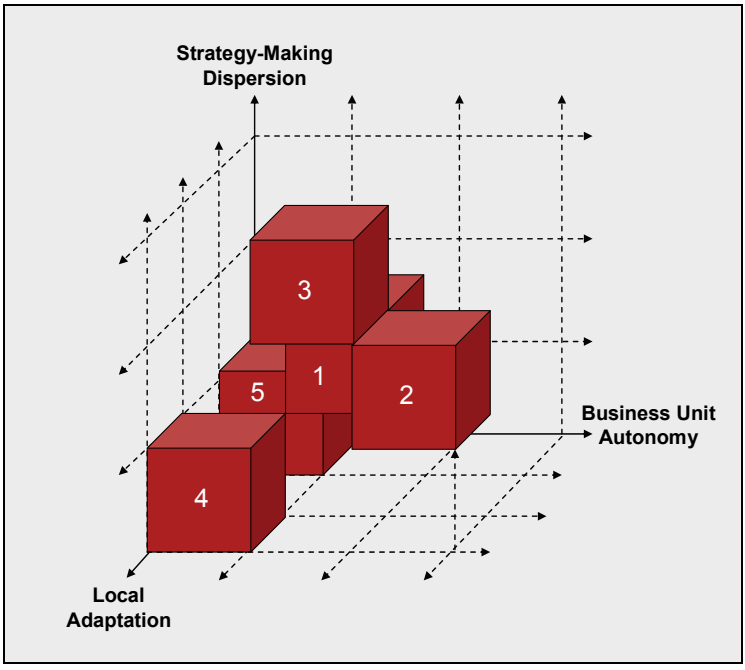
Cluster	#	Business Unit Autonomy		Strategy-Making Dispersion		Local Adaptation	
		Mean	Deviation	Mean	Deviation	Mean	Deviation
1. Balanced Organizing	171	2,41	-0,03	3,40	0	3,49	-0,30
2. Participative Federation	69	3,07	0,63	3,63	0,23	4,14	0,35
3. Participative Multinational	57	2,15	-0,29	3,98	0,58	4,31	0,52
4. Local Leadership	48	2,00	-0,44	2,70	-0,70	4,22	0,43
5. Global Leadership	22	1,79	-0,65	2,72	-0,68	2,89	-0,90
6. Authoritative Federation	6	3,93	1,49	2,71	-0,69	4,31	0,52
7. Democratic Federation	5	4,03	1,59	4,43	1,03	4,23	0,44
8. Global Integration	4	1,57	-0,87	3,63	0,23	2,11	-1,68
9. Global Business Leadership	2	3,50	1,06	2,44	-0,96	2,64	-1,15
10. Participative Integration	1	2,00	-0,44	5,00	1,60	3,71	-0,08
Total	385	2,44		3,40		3,79	

1. *Balanced Organizing (M-M-M)*. As with the strategy process cluster analysis, the middle-of-the-road cluster was the largest here (N=171; 44%). Again it must be noted that the means of this cluster (2,41; 3,40; 3,49) do not suggest that it is the center ground, but if you compare these scores to the overall group average, this cluster sits very firmly in the middle.
2. *Participative Federation (H-M-H)*. This second largest cluster (N=69; 18%) scores higher than average on business unit autonomy and local adaptation, while only slightly above average on strategy-making dispersion. In other words, the members of this cluster strongly emphasize decentralization in all of its aspects. They prefer a federation of autonomous business units and significant local responsiveness, with a mild amount of bottom-up participation in the strategy-making process.
3. *Participative Multinational (M-H-H)*. The third largest cluster (N=57; 15%) scores much higher on local adaptation and strategy-making dispersion, but much lower on business unit autonomy. In other words, they believe more strongly in working together in each country, across business units, in a participative way, but are strongly inclined to do this on multinational (country by country) basis.
4. *Local Leadership (L-L-H)*. The fourth largest cluster (N=48; 12%) consists of people who are also strongly in favour of local adaptability and considerable geographic

decentralization, but in each local unit they prefer a strong integration of businesses and strong concentration of strategic decision-making authority at the top of the unit. Characteristic for organizations with this type of profile is that they often have strong country managers.

5. *Global Leadership (L-L-L)*. The last of the significant clusters (N=22; 6%) consists of people with a strong inclination towards centralization along all dimensions. They prefer low levels of business unit autonomy, strategy-making dispersion and local adaptation, instead preferring cross-business and cross-border integration, as well as strategy-making concentration. Characteristic for organizations with this type of profile are strong global top management teams, directing international firms from the corporate center.

FIGURE 14.2
Visualization of the Organization View Clusters



Even more than with the strategy process clustering, here only a limited number of combinations seem to be popular. For instance, those people who have a preference for a globally standardized approach have a very strong chance of also being inclined to other forms of centralization (business unit integration and strategy-making concentration). Those who favor high strategy-making dispersion or high business unit autonomy, on the other hand, are more likely to lean towards local adaptiveness.

However, it must be emphasized again that generalizing these conclusions can only be done at one's own risk. As the sample was not entirely representative for the population at large, for example containing an overrepresentation of Dutch executives, this cluster analysis should only viewed as an exploration of potential interrelations between the strategy dimensions. Only two really firm conclusions can be drawn on the basis of these analyses so far. First, that there do not seem to be traces of just a few overarching strategy paradigms that

could replace these three strategy dimensions. And secondly, that further research on these clusters seems promising, particularly if a broader, more representative dataset becomes available. Given its further research potential, this topic will be revisited in chapter 16.

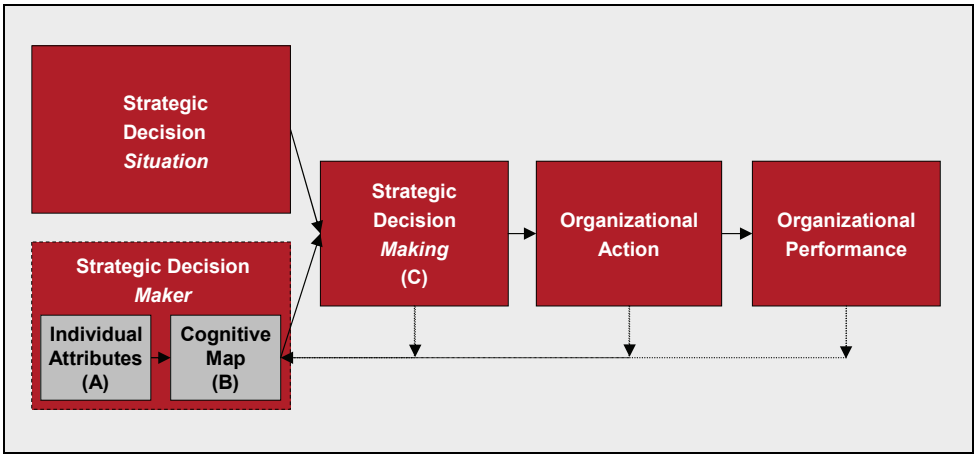
Chapter 15

USING THE MEASUREMENT INSTRUMENT

15.1 INTRODUCTION

With 17 reliable strategy perspective scales completed, as well as eight composite strategy dimension scales, the primary research question has been answered. The similarities and differences in the key strategy perspectives held by business executives can be made measurable. It would now be valid to move to 'conclusions and recommendations for further research'. Yet, such a step would miss out on the opportunity to 'field test' with the newly created measurement instrument, to see if it can contribute to answering some of the fundamental questions in the field of strategic cognition identified in chapter 1 (see figure 15.1), such as "which personal attributes are determinants of executives' strategy perspectives?" (A→B) and "how do executives' strategy perspectives influence strategic decision-making processes" (B→C).

FIGURE 15.1
Exploring the link between personal attributes (A) and strategy perspectives (B)



With the first of these two questions in mind, the Strategy Profiler was designed to collect additional information on a number of personal attributes. The collection of this additional information was not theory-driven, but oriented towards the registration of a number of straight-forward and objective characteristics, such as age, education, nationality, functional area and experience. These are "the usual suspects" – personal attributes often included in research into cognitive maps (Porac and Thomas, 2002; Walsh, 1995). Given the existence of this information for the 385 people who filled out the Strategy Profiler 3.0, it would indeed be a missed opportunity if the relationship between personal attributes and strategy perspectives was not investigated. Therefore, in this chapter an additional research question will be considered, namely, what might be some of the factors influencing executives' strategy perspectives (see figure 15.1).

It must be reemphasized that this research question is exploratory in nature. As this study is a first attempt to develop a theory of strategy perspectives, much work still needs to be done on building theories to explain where executives' strategy perspectives come from. The focus of this chapter is to review a range of 'standard attributes', as a first round of scouting, with the intention of contributing to the process of theory-building. It is the objective to come up with a number of empirically-derived leads that can be used in the next, final, chapter to formulate propositions with regard to the potential determinants of strategy beliefs.

The richest dataset for this exploratory purpose is the Strategy Profiler 3.0 one, containing 385 respondents from a wide variety of backgrounds. The Strategy Profiler 4.0 dataset is much narrower, containing only 127 respondents from one company. Therefore, for this research the Strategy Profiler 3.0 dataset will be used. However, it should be noted that using the Strategy Profiler 3.0 dataset also has a disadvantage. As was detailed in chapter 14, the reliability of the Strategy Profiler 3.0 strategy perspective scales was lower (only six of the twenty had an alpha above 0,65). Therefore, instead of focusing the discussion on the twenty strategy perspective scales, the eight reliable strategy dimension scales will be central in the following analyses.

The research was conducted in three steps. First, for the linear variables, a correlation analysis was performed, comparing a number of personal attributes with the strategy perspective/dimension scales. The results of this analysis will be reported in section 15.3. Subsequently for the categorical variables, a one-way ANOVA analysis was carried out, which will be presented in section 15.4. Thirdly, a regression analysis was done with most of the previously used variables, to judge the level of explanation these variables could provide. This material will be detailed in section 15.5. But before presenting these three analyses – all based on the Strategy Profiler 3.0 dataset – this chapter will start with a more detailed overview of the 385 respondents (section 15.2).

15.2 DESCRIPTION OF THE RESPONDENTS

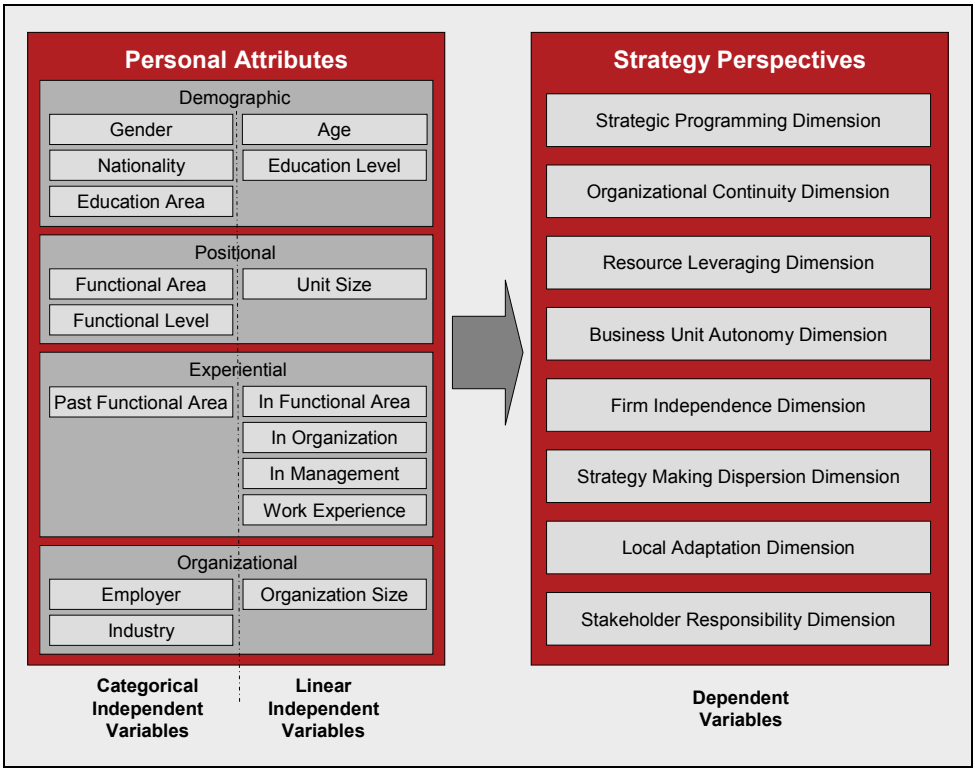
As explained in chapter 13, the sample employed for the Strategy Profiler 3.0 was not defined upfront, but emerged along the way, depending on the executive education programs conducted by the Strategy Academy during the period from April 2005 until June 2006. A total of 508 participants in a variety of strategic management programs were invited to fill out the Strategy Profiler as part of the preparation for their course, of which 424 eventually did (83%). While this was a sample of convenience, the advantage of this approach was two-fold. First, in this manner a very high level of response could be ensured. Getting hundreds of busy executives to fill out a questionnaire is very difficult, but in this way there was a strong motivation for each individual to participate. The second advantage of this approach was that

it enabled a wide variety of executives, coming from 168 organizations, 20 countries and 18 industries to be involved, giving a high level of richness to the dataset. And as there were no particular hypotheses to be tested, it was assumed that variety in the respondent population would be the best way of identifying which personal attributes might be of importance.

While the group of respondents was quite varied, it is not entirely representative of the population of executives at large. It is, therefore, important to review the composition of this group, to identify any biases it may contain. In this section, the group composition will be described on the basis of the most important independent variables used in the further analysis. It should be noted that, as argued in chapter 13, it is not likely that there is a significant bias in the group of non-respondents, compared to those that did respond. Most of the non-respondents mentioned lack of time, misunderstanding or technical difficulties as reasons for non-participation and it does not seem probable that any particular group was more beset by these troubles than others.

Furthermore, it should be noted that, just as in the previous chapter, the number of valid respondents (385) is lower than the overall number of respondents (424) due to the removal of those individual scores that did not meet the consistency tests. Unfortunately, for these 385 people not all personal information was always collected due to software problems. But as this software failure was totally random (making it hard to solve and forcing the entire program to be rewritten in a different programming language) it is unlikely that it has had a systematic bias on the respondent group.

FIGURE 15.2
Detailing of the independent and dependent variables recorded



The respondents can be described on the basis of the four general categories of personal attributes that were recorded; demographic, positional, experiential and organizational characteristics (see figure 15.2). Each of these will be reviewed in the sub-sections below.

TABLE 15.1
Gender distribution

	Frequency	Percent	Valid Percent
Female	89	23,12	23,12
Male	296	76,88	76,88
Total	385	100,00	100,00

TABLE 15.2
Nationality distribution

	Frequency	Percent	Valid Percent
Austria	4	1,04	1,63
Belgium	5	1,30	2,03
Canada	3	0,78	1,22
China	8	2,08	3,25
Croatia	5	1,30	2,03
France	6	1,56	2,44
Germany	24	6,23	9,76
India	27	7,01	10,98
Italy	3	0,78	1,22
Malaysia	1	0,26	0,41
Netherlands	129	33,51	52,44
New Zealand	2	0,52	0,81
Singapore	1	0,26	0,41
Slovenia	5	1,30	2,03
Surinam	1	0,26	0,41
Sweden	3	0,78	1,22
Switzerland	1	0,26	0,41
United Kingdom	13	3,38	5,28
United States	5	1,30	2,03
Total	246	63,90	100,00
Missing	139	36,10	
Ultimate Total	385	100,00	

15.2.1 Demographic Attributes

Five types of demographic attributes were recorded: gender, age, nationality, educational level and education area. These five variables were selected as they are often cited as important influences on the development of belief systems. In the tables below, the descriptive statistics on these five variables are given. All variables, except age, are categorical variables and therefore the frequency of each category is reported. However, educational level has also been converted into a linear variable (from lower education to high), making it possible to also report an average and standard deviation.

What can be concluded from these tables is that, in terms of *representativeness*, the dataset is biased towards people with a Dutch nationality. While there is also a relatively high frequency of males, people with a Master's degree and people having studied Business Administration, this does not seem at odds with their frequency in the broader population of business executives in most developed economies. In other words, only the overabundance of Dutch respondents is an important imbalance that needs to be kept in mind.

At the same time, in term of a sufficiently large *sample size*, the set of 385 respondents is still much too small to be able to say much about any specific nationality (except the Dutch), or about the influence of most educational backgrounds, as most categories have a very low total.

TABLE 15.3
Age distribution

	N	Mean	Standard Deviation
Age	269	38,57	9,00

TABLE 15.4
Educational level distribution

Mean 3,65 S.D. 0,68	Frequency	Percent	Valid Percent
1. Primary education	2	0,52	0,74
2. Secondary education	11	2,86	4,07
3. Bachelor's degree	81	21,04	30,00
4. Master's degree	161	41,82	59,63
5. Doctorate degree	15	3,90	5,56
Total	270	70,13	100,00
Missing	115	29,87	
Ultimate Total	385	100,00	

TABLE 15.5
Education area distribution

	Frequency	Percent	Valid Percent
Physical Sciences	14	3,64	5,20
Business Studies	99	25,71	36,80
Computer Sciences	8	2,08	2,97
Economics	44	11,43	16,36
Education	4	1,04	1,49
Engineering	41	10,65	15,24
Languages	2	0,52	0,74
Law	15	3,90	5,58
Mathematics	7	1,82	2,60
Medicine/Nursing	4	1,04	1,49
Philosophy / Religion	1	0,26	0,37
Social Sciences	27	7,01	10,04
Other	3	0,78	1,12
Total	269	69,87	100,00
Missing	116	30,13	
Ultimate Total	385	100,00	

15.2.2 Positional Attributes

While the demographic attributes are characteristics that people have before coming into their careers, the positional attributes are characteristics of where people are currently "located" in their careers. The three attributes recorded were functional area (e.g. marketing, operations), function level (e.g. CEO, business unit manager) and size of functional responsibility (e.g. unit of 100 employees, unit of 100.000 employees).

What became clear from the responses was that the variables 'function level' and 'size of functional responsibility' were too open to misinterpretation to yield useful data. For the variable 'functional level' respondents were allowed to select between "Not Employed," "Student," "Professor/Trainer," "Consultant," "Specialist/Staff," "Manager," "Executive Director," "Non-Executive Director". What had not been foreseen was that some "executive directors" turned out to be the head of a one man company, while some "managers" ran business units with thousands of employees worldwide. Therefore, these categories turned out to be rather meaningless. It was also reported back by many respondents that they were confused because they fell into multiple categories, e.g. manager of a consulting firm or a manager currently not employed. Given these difficulties, this variable was dropped for the further analysis. For the Strategy Profiler 4.0 two important changes were made. Respondents were allowed to fill in more than one category if applicable and the variable "executive director" was dropped, as the term manager is sufficient.

Many respondents also had difficulty defining how many people they had in "the unit" they were leading. They were allowed to choose between "Unit of <10 employees," "Unit of 10-49 employees," "Unit of 50-99 employees," "Unit of 100-499 employees," "Unit of 500-999 employees," "Unit of 1000-9999 employees," and "Other top management

position". However, some people were confused by the term unit. For instance, one CEO of a company with thousands of employees reported leading a unit of 50-99 employees, probably only referring to the headquarters staff. Here too, the manner in which the data was collected for the Strategy Profiler 4.0 was improved. The question was changed to "how many people fall under your direct or indirect authority?" But for the Strategy Profiler 3.0 dataset only the functional area variable offers reliable data for further analysis purposes (see table 15.6).

TABLE 15.6
Functional area distribution

	Frequency	Percent	Valid Percent
General Management	48	12,47	18,90
Finance	28	7,27	11,02
Human Resources	11	2,86	4,33
Information Management	13	3,38	5,12
Marketing	38	9,87	14,96
Operations / Logistics	16	4,16	6,30
Procurement	2	0,52	0,79
Research & Development	16	4,16	6,30
Sales	21	5,45	8,27
Strategy	2	0,52	0,79
Other Staff	20	5,19	7,87
Other	39	10,13	15,35
Total	254	65,97	100,00
Missing	131	34,03	
Ultimate Total	385	100,00	

What can be concluded from this table is that the sample size is not large enough to be able to draw any firm conclusions about the correlation between functional position and strategy perspectives. For most functional areas the number of respondents is simply too low to do more than scout for potential correlations.

15.2.3 Experiential Attributes

While the positional attributes reflect a person's current position, the experiential variables capture what a person has done before coming to their current position. Five variables were recorded: most experienced functional area (just in case this is different than their current functional position), years of experience in current functional area, years at the organization, overall working experience and overall management experience. In tables 15.7 through 15.11 an overview is given of these five variables. While all have been recorded as categorical variables, all except the most experienced functional area can also be transformed into linear variables. Of course, these four variables measuring length of experience are all highly correlated with each other, as they all increase with age. In table 15.12 an overview is presented of the correlations between all linear independent variables recorded.

What can be concluded from these overviews is that this sample is somewhat biased towards people in the middle of their careers – with 10-19 years of work experience, of which 4-9 in a management position. Obviously, this is the primary audience for executive education and therefore they are somewhat overrepresented in this sample compared to the population at large.

TABLE 15.7
Most experienced functional area distribution

	Frequency	Percent	Valid Percent
General Management	20	5,19	19,80
Finance	11	2,86	10,89
Human Resources	3	0,78	2,97
Information Management	4	1,04	3,96
Marketing	10	2,60	9,90
Operations / Logistics	15	3,90	14,85
Procurement	0	0,00	0,00
Research & Development	8	2,08	7,92
Sales	11	2,86	10,89
Strategy	1	0,26	0,99
Other Staff	5	1,30	4,95
Other	13	3,38	12,87
Total	101	26,23	100,00
Missing	284	73,77	
Ultimate Total	385	100,00	

TABLE 15.8
Years of experience in functional area distribution

Mean 2,88 S.D. 1,03	Frequency	Percent	Valid Percent
1. <1 years	8	2,08	7,92
2. 1-3 years	30	7,79	29,70
3. 4-9 years	35	9,09	34,65
4. 10-19 years	22	5,71	21,78
5. 20-29 years	6	1,56	5,94
Total	101	26,23	100,00
Missing	284	73,77	
Ultimate Total	385	100,00	

TABLE 15.9
Years at the organization distribution

Mean 3,04 S.D. 1,10	Frequency	Percent	Valid Percent
1. <1 years	9	2,34	8,91
2. 1-3 years	18	4,68	17,82
3. 4-9 years	46	11,95	45,54
4. 10-19 years	18	4,68	17,82
5. 20-29 years	8	2,08	7,92
6. >30 years	2	0,52	1,98
Total	101	26,23	100,00
Missing	284	73,77	
Ultimate Total	385	100,00	

TABLE 15.10
Years of work experience distribution

Mean 4,06 S.D. 0,91	Frequency	Percent	Valid Percent
1. <1 years	2	0,52	1,98
2. 1-3 years	1	0,26	0,99
3. 4-9 years	21	5,45	20,79
4. 10-19 years	45	11,69	44,55
5. 20-29 years	29	7,53	28,71
6. >30 years	3	0,78	2,97
Total	101	26,23	100,00
Missing	284	73,77	
Ultimate Total	385	100,00	

TABLE 15.11
Years of management experience distribution

Mean 2,76 S.D. 1,22	Frequency	Percent	Valid Percent
1. <1 years	57	14,81	21,19
2. 1-3 years	45	11,69	16,73
3. 4-9 years	94	24,42	34,94
4. 10-19 years	54	14,03	20,07
5. 20-29 years	18	4,68	6,69
6. >30 years	1	0,26	0,37
Total	269	69,87	100,00
Missing	116	30,13	
Ultimate Total	385	100,00	

TABLE 15.12
Correlations between linear variables

	Personal Attribute	1	2	3	4	5	6
1	Age	1,000	-0,001	0,436 ***	0,478 ***	0,751 ***	0,833 ***
2	Educational Level	-0,001	1,000	-0,157	-0,136	0,073	-0,292 ***
3	Functional Experience	0,436 ***	-0,157	1,000	0,311 ***	0,337 ***	0,569 ***
4	Years at Organization	0,478 ***	-0,136	0,311 ***	1,000	0,380 ***	0,493 ***
5	Mgmt Experience	0,751 ***	0,073	0,337 ***	0,380 ***	1,000	0,619 ***
6	Work Experience	0,833 ***	-0,292 ***	0,569 ***	0,493 ***	0,619 ***	1,000

***: Correlation is significant at the level p<0,01

15.2.4 Organizational Attributes

The last category of attributes was organizational, focusing on the type of firm environment in which the respondent is currently working. Three types of variables were recorded: employer (the name of the company for which the respondent is working), industry and size of company. The reasoning was that corporate and industry culture are often mentioned as important influences on the belief systems of executives (e.g. Tyler and Steensma, 1997; Porac et al, 1995), and that an important aspect of corporate culture is the size of the firm.

Due to a programming error, however, the Strategy Profiler 3.0 did not register the organizational characteristics of the respondents' employers, but of the university, business school or training firm organizing the strategic management course the respondents were participating in. This glitch has been rectified for the Strategy Profiler 4.0; for the Strategy Profiler 3.0 all respondents' employers and industries were recovered by hand afterwards, based on the email addresses of the respondents. This led to the conclusion that the 424 original respondents (before sifting out the inconsistent responses) came from approximately 168 organizations, which were most likely operating in 18 of the 21 industry categories possible. However, given the imprecision of this 'data recovery process', this data will be left out of the further study.

15.2.5 Conclusions about the Dataset

In the last few pages, it has become clear that the group of respondents to the Strategy Profiler 3.0 is not entirely representative of the broader population of executives around the world. This sample, and the resulting dataset, is slightly biased towards Dutch respondents in the middle of their careers. This is important to keep in mind, but not a real impediment for the exploratory research intended in this chapter.

However, a second limitation of this dataset also needs to be pointed out. As is made clear in table 15.12, the various linear variables are not independent of one another, as almost all of them are linked to age. When it comes to the categorical variables, they too are not fully independent of one another, as can be seen in the Pearson's Chi-Square tests reported in table 15.13. This means that caution is required in interpreting the one-on-one relationships between independent and dependent variables, as there is an increased chance of co-linearity.

TABLE 15.13
Chi-square test between categorical variables

Variable	Gender		Nationality		Educational Area		Functional Area	
	X^2	dF	X^2	dF	X^2	dF	X^2	dF
Nationality	29,88 **	18						
Educational Area	24,72 **	12	198,66	216				
Functional Area	29,77 ***	11	229,71 *	198	353,50 ***	132		
Most Experienced Function	21,64 **	10	107,49	90	172,43 **	110	386,41 ***	100

***: Correlation is significant at the level p<0,01
**: Correlation is significant at the level p<0,05
*: Correlation is significant at the level p<0,10

15.3 EXPLORATORY CORRELATION ANALYSIS

The objective in this section is to empirically explore which linear independent variables are correlated to the strategy perspectives and strategy dimensions. The driving question is 'where do the strategy perspectives of executives come from?' But as explained before, there are no hypotheses to be tested. In this phase of the research cycle, induction is still dominant; this analysis is intended to uncover leads which can be used for the theory building process. Therefore, all of the significant correlations discovered in this analysis will be shortly discussed, to field as many potential explanations as possible, as inputs for future theory development efforts (see also chapter 16).

In figure 15.2, eight linear independent variables were identified among the personal attributes recorded. As explained, two of these have been dropped from this study (size of unit managed and size of organization), leaving the six variables reviewed in table 15.12.: age, education level, experience in functional area, years in organization, management experience and work experience. In table 15.14 the correlations between these variables and the strategy perspective scales are reported. It should be noted that while the correlations with all strategy perspective scales are reported in this table, only six of these scales have a Cronbach alpha higher than 0,65 (see table 14.1) justifying their inclusion in the following discussion. These six reliable scales are shown in the white cells in table 15.14.

In table 15.15 the correlations between the six linear variables and the strategy dimension scales are presented. As all of these scales have an acceptable reliability coefficient (seven of eight are above a Cronbach alpha of 0,65; only 'resource leveraging' has a score of 0,61), these correlations are much more meaningful and important for further research.

In the following sub-sections, the significant correlations between the six independent variables and the strategy perspective/dimension scales will be reviewed in turn.

15.3.1 Strategy Perspectives and Age

In the sample of 385 executives, age is negatively correlated with the continuous renewal perspective, organizational leadership perspective and the strategic programming dimension. Hence, on average, the older the person is, the less they believe in evolutionary change, top-down strategizing and strategic programming:

TABLE 15.14
Correlations between linear independent variables and the strategy perspective scales

	Perspective Scale	Age	Educational Level	Functional Experience	Years at Org.	Mgmt Experience	Work Experience
1	Rational Reasoning	-0,058	-0,048	0,026	-0,040	-0,055	0,004
2	Generative Reasoning	0,100	0,006	0,148	0,060	0,078	0,182 *
3	Strategic Planning	-0,065	-0,132 **	0,089	-0,037	-0,022	-0,015
4	Strat. Incrementalism	0,059	0,038	0,040	0,122	0,043	0,114
5	Discontinuous Renewal	-0,070	0,016	0,100	0,148	-0,034	0,134
6	Continuous Renewal	-0,175 ***	-0,106 *	-0,069	-0,011	-0,155 **	-0,030
7	Outside-In	-0,019	-0,087	0,086	0,303 ***	-0,033	0,048
8	Inside-Out	-0,059	-0,058	-0,019	-0,075	-0,042	0,077
9	Portfolio Organization	0,016	-0,091	-0,098	-0,051	0,012	0,145
10	Integrated Organization	-0,100	-0,063	0,134	-0,068	-0,049	-0,131
11	Discrete Organization	-0,100	0,049	-0,032	0,032	-0,120 **	-0,002
12	Embedded Org.	0,085	-0,178 ***	0,185 *	-0,086	0,060	0,084
13	Industry Dynamics	0,005	0,027	0,038	0,050	0,047	0,150
14	Industry Leadership	-0,066	-0,094	0,011	0,087	-0,092	0,034
15	Org. Leadership	-0,130 **	0,013	-0,016	0,038	-0,025	-0,091
16	Org. Dynamics	0,010	-0,025	0,101	-0,042	0,059	0,127
17	Global Convergence	0,057	-0,152 **	0,119	0,054	0,051	0,029
18	International Diversity	-0,006	0,088	0,150	-0,216 **	0,031	0,063
19	Shareholder Value	-0,053	-0,068	-0,162	-0,008	-0,037	-0,129
20	Stakeholder Values	-0,103 *	-0,012	0,108	0,125	-0,055	0,105

Scales with α ≥ 0,65 are depicted in white cells (see table 14.1).
***: Correlation is significant at the level p<0,01
**: Correlation is significant at the level p<0,05
*: Correlation is significant at the level p<0,10

TABLE 15.15
Correlations between linear independent variables and the strategy dimension scales

	Dimension Scale	Age	Educational Level	Functional Experience	Years at Org.	Mgmt Experience	Work Experience
21	Strategic Programming	-0,111 *	-0,147 **	0,061	-0,094	-0,082	-0,042
22	Org. Continuity	-0,084	-0,091	-0,082	-0,064	-0,087	-0,085
23	Resource Leveraging	-0,027	0,036	-0,058	-0,142	0,017	0,027
24	BU Autonomy	0,008	-0,048	-0,138	-0,033	-0,005	0,134
25	Firm Independence	-0,015	0,032	-0,011	0,094	-0,063	0,098
26	StratMaking Dispersion	0,067	-0,037	0,083	-0,054	0,036	0,146
27	Local Adaptation	0,037	0,174 ***	0,011	-0,199 **	0,073	0,051
28	Stakeholder Respons.	-0,095	-0,009	0,100	0,109	-0,052	0,072

***: Correlation is significant at the level p<0,01; **: at the level p<0,05; *: at the level p<0,10

- *Age and continuous renewal perspective (-0,175; p<0,01)*. Of all of the high correlation coefficients, the highly negative one between age and the continuous renewal perspective is one of the most eye-catching. It seems that with age, people are less inclined to believe that change can be gradual and continuous. It could be speculated that these older executives have learned from experience that continuous renewal is less effective (there is also a highly negative correlation between management experience and the continuous renewal perspective), but it is also possible that older executives are less patient to achieve strategic changes, either because they will not be around very much longer, or because they are in higher positions within their organizations and are experiencing stronger pressure for quick results. To check this last conjecture, more precise data on each individual's management level would be very useful. Interestingly, these older executives do not show, as matter of compensation, a positive inclination towards the discontinuous perspective. For this reason, age also does not have a significant correlation with the organizational continuity dimension. Obviously, believing less in evolutionary change has not made them stronger believers in revolutionary change. It could be that they are just less inclined to believe that any approach to strategic change will work at all.
- *Age and organizational leadership perspective (0,130; p<0,05)*. Older executives also tend to believe less in the value of top-down strategizing. This does not seem due to their length of experience (both work experience and management experience are not significantly correlated), but only age, possibly suggesting that older executives, being closer to the end of their careers, believe that the next generation should develop strategy less top-down. It might also be that the older executives are higher up in the hierarchy. Yet if this is the case, it would mean that the higher level managers believe less strongly that they should be creating the strategy top-down than lower level managers. However, here again, older executives do not believe significantly more in the opposite perspective, of bottom-up participation in the strategizing process. For this reason, age also has no significant correlation to the strategy-making dispersion dimension. This could mean that the older executives are less inclined to think that any approach to strategy making will work at all.
- *Age and strategic programming (0,111; p<0,10).* The older the executive, the less likely he/she is to view strategy formation as a deliberate process. This negative correlation coefficient is not high, but still significant. It would seem that, in general, work and management experience make executives more inclined to lean over to the emergence side of the spectrum, even though these correlations are not significant. But it might be life experience, or their management level within the organization that compound this tendency to make them more oriented towards strategic incrementalism than average.

15.3.2 Strategy Perspectives and Educational Level

Of the six variables, educational level produced the most significant correlations. There are negative correlations with the strategic planning, continuous renewal and strategic programming dimension. There is also a highly significant positive correlation with the local adaptation dimension. Hence, on average, the higher the level of education of individuals, the more they will favor local adaptation over global synergies and emergence over deliberateness, while believing less in evolutionary change:

- *Educational level and strategic programming (-0,147; p<0,05)*. It seems that people with a higher level of education tend to be less inclined to believe that strategy formation should be approached in a highly deliberate way. On both relevant scales, the strategic

planning perspective scale and the strategic programming dimension scale, there is a significant negative correlation with deliberate strategizing. It could be hypothesized that people with a higher level of education are generally more capable of overseeing the complexity and dealing with the ambiguity inherent in a more emergent approach, while people with a lower level of education prefer the structure and predictability of a more deliberate approach. Or putting it more positively, people with a lower level of education might be in less need of making things complex and are more inclined to keep it simple and predictable. A related argument is that people with a higher level of education might be more confident that they are capable of learning along the way, making them more inclined to experiment and explore.

- *Educational level and local adaptation (0,174; p<0,01)*. People with a higher level of education are also less likely to believe in the value of a globally-integrated and standardized approach. On the global convergence scale a clear negative correlation was found, while on the overall dimension of global convergence vs. international diversity (local adaptation dimension) the correlation coefficient was even higher. A possible explanation is similar to the explanation given above: people with a higher level of education are more equipped to deal with the complexity and ambiguity inherent in the international diversity perspective, while people with a lower level of education are more attracted to the structure and simplicity of the global convergence perspective. Furthermore, people with a higher level of education generally have more knowledge about the global environment, accumulated during their studies, but potentially also from the media they employ.
- *Educational level and continuous renewal perspective (-0,106; p<0,10)*. At first glance, this correlation seems odd – why are people with a higher education less inclined to subscribe to the continuous renewal perspective? Shouldn't they be oriented to gradual learning, as also discussed in the context of the strategic programming dimension? Yet, some potential explanations are still possible. First, people with a higher level of education might feel that an evolutionary approach to change is not ambitious enough and they might feel more confident to take on more complex renewal projects in a limited period of time. Secondly, people with a lower level of education might be more inclined to believe the continuous renewal perspective because they are often on the "receiving end" of strategic change processes and feel more comfortable if it goes at a pace that they can keep up with.

15.3.3 Strategy Perspectives and Experience

Four separate variables were used to measure different aspects of experience, but as they are all closely linked, they will be discussed together in this sub-section. Interestingly, years of functional area experience and years of work experience had no significant correlations with either the strategy perspectives or the strategy dimensions. Years experience within the current organization and management experience both had one significant correlation:

- *Years at organization and local adaptation dimension (-0,199; p<0,05)*. Earlier it was discussed that executives with a higher level of education were more inclined towards the localization side of the local adaptation dimension. When it comes to years at the current organization, the opposite is the case; on average, experience in the firm is linked to a more globalized approach to international strategy. It can be hypothesized that this is due to insight into the market and/or the firm's business system – the more an executive knows about the functioning of international markets and the nitty-gritty of the firm's

international activities and product offerings, the more he/she has come to believe that more cross-border standardization and integration will pay off. In other words, localization is the default when an executive has insufficient insight, but as experience increases, the global synergy opportunities become more self-evident. In addition to seeing the synergy potential, long-time employees might also gain a better understanding of how cross-border synergizing can be organized efficiently and effectively in the firm. An alternative explanation is that newer employees have more experience outside the firm and are better at recognizing diversity in the international market, while long-time employees might be more inclined to view the international environment through the corporate lens, seeing the international uniformity they want to see, which allows them to impose a one size fits all approach.

- *Management experience and continuous renewal perspective (-0,155; p<0,05)*. The last significant correlation in table 15.14 is a negative one between management experience and the continuous renewal perspective. On average, the more management experience, the less likely executives will be inclined to believe in an evolutionary approach to strategic change. The possible explanations are very similar to the arguments given in sub-section 15.3.1 on the correlation with age.

15.3.4 Correlation Analysis Conclusions

The overall conclusion that can be drawn from these correlation analyses is that these six variables seem to play only a minor role in determining the strategy perspectives held by executives. Two of the six show no significant correlations at all (functional area experience and work experience), while the other four only show a limited number of significant correlations. At the same time, many of the strategy perspectives and strategy dimensions actually have no significant correlations with these variables at all. Of course, it might be possible that these variables have an impact on the missing strategy perspectives and strategy dimensions, but overall they do not seem to be the main factors determining the views held by executives.

Hence, while these variables might be a small part of the overall picture, for theory building purposes their importance is limited. Other variables will need to be sought to understand the variety of strategic beliefs.

15.4 EXPLORATORY ONE-WAY ANOVA ANALYSIS

For the categorical independent variables, the initial test to establish whether they might be linked to the dependent variables is by means of a one-way ANOVA analysis, which assesses the equality of means across the various categories. As with the correlation analysis, the intention here is to explore which variables might be potential determinants of executives' strategic beliefs and, therefore, of importance for further research.

In figure 15.2, eight categorical variables were mentioned, of which three were dropped for this exploratory analysis (function level, employer and industry), leaving five relevant variables to be discussed: gender, area of studies, functional area, past functional area and nationality. In the sub-sections below the results of the one-way ANOVA tests for these variables will be reported and discussed. In each case, the results for all strategy perspective scales and strategy dimension scales will be displayed, although only a limited number of the strategy perspective scales are reliable. As before, the reliable scales will be shown in distinctive white cells.

15.4.1 Strategy Perspectives and Gender

The gender of the respondents was the first variable recorded, although strictly speaking it is not one of the "usual suspects", since it has not often been cited as a factor influencing strategic beliefs. Interestingly, however, in this sample there is one strategy perspective were gender seems to play a role. As can be seen in table 15.16, the women score significantly higher on the organizational dynamics perspective than the men ($F = 4,05$; $p<0,05$ level). This effect is somewhat less pronounced on the strategy-making dispersion dimension, but still significant at the $p<0,10$ level (see table 15.17). This lower F score along this dimension is due to the fact that the male and female respondents do not have significantly different scores on the opposite strategy perspective, namely the organizational leadership perspective – it is only their views on the amount of bottom-up involvement in strategy-making that is significantly different.

TABLE 15.16
One-way ANOVA for gender and the strategy perspective scales

	Perspective Scales	Female (N=89)	Male (N=296)	Total (N=385)	F
1	Rational Reasoning	3,43	3,54	3,51	1,77
2	Generative Reasoning	3,62	3,56	3,57	0,78
3	Strategic Planning	3,78	3,79	3,79	0,01
4	Strategic Incrementalism	3,44	3,41	3,42	0,16
5	Discontinuous Renewal	3,00	2,99	2,99	0,02
6	Continuous Renewal	3,22	3,12	3,14	1,40
7	Outside-In	2,80	2,79	2,79	0,00
8	Inside-Out	3,36	3,40	3,39	0,44
9	Portfolio Organization	2,53	2,54	2,54	0,05
10	Integrated Organization	3,90	3,81	3,83	1,92
11	Discrete Organization	2,26	2,18	2,20	1,29
12	Embedded Organization	3,61	3,71	3,69	2,77 *
13	Industry Dynamics	2,51	2,52	2,52	0,04
14	Industry Leadership	3,11	3,27	3,23	5,23 **
15	Organizational Leadership	3,19	3,27	3,25	0,85
16	Organizational Dynamics	3,88	3,73	3,76	4,05 **
17	Global Convergence	2,86	2,96	2,94	1,92
18	International Diversity	3,77	3,80	3,79	0,17
19	Shareholder Value	2,78	2,89	2,86	1,35
20	Stakeholder Values	3,77	3,79	3,79	0,09

Scales with $\alpha \geq 0,65$ are depicted in white cells (see table 14.1).
All F tests with (1,383) degrees of freedom
*** $p<0,01$; ** $p<0,05$; * $p<0,10$

TABLE 15.17
One-way ANOVA for gender and the strategy dimension scales

	Dimension Scales	Female (N=89)	Male (N=296)	Total (N=385)	F
21	Strategic Programming	3,37	3,36	3,36	0,04
22	Organizational Continuity	3,09	3,04	3,05	0,33
23	Resource Leveraging	3,40	3,40	3,40	0,00
24	Business Unit Autonomy	2,43	2,45	2,44	0,10
25	Firm Independence	2,30	2,24	2,25	0,83
26	Strategy-making Dispersion	3,51	3,37	3,40	3,79 *
27	Local Adaptation	3,79	3,79	3,79	0,00
28	Stakeholder Responsibility	3,95	3,92	3,93	0,20

All F tests with (1,383) degrees of freedom
*** p<0,01; ** p<0,05; * p<0,10

The obvious question is why this result was found. Before jumping to the conclusion that women in general might be more inclined towards the organizational dynamics perspective than men, it should be noted that the women in the sample were not equally distributed across all other categories. In table 15.13 it can be seen that gender distribution is significantly linked to the distribution of educational area, functional area and nationality. Therefore, what might seem to be a link between gender and a specific strategy perspective might be due to the different nationalities, studies and functional areas of the male and female segments of the sample.

Having stated this reservation, it is still interesting to speculate why on average women might be more strongly oriented towards the organizational dynamics perspective than men. The possible explanations can be found on both the "nature" and the "nurture" side of the debate on gender differences. On the "nature" side, it is possible that in general women have a more inclusive orientation towards decision-making than men, due to their desire to build strong group relationships and a preference for more group consensus. The "average" man, on the other hand, might feel more at ease with a clearer "pecking order" that leaves some group members outside of the decision-making process. On the "nurture" side, it might be that women tend towards a more bottom-up, inclusive orientation because they believe this works better for them in their current situation, which is that of working in mostly male-dominated organizations. Instead of competing for decision-making power with men, they might tend to defuse internal competition by advocating a more cooperative joint decision-making approach.

The intention of this speculation is not to field testable hypotheses, as a much deeper knowledge of the huge literature on gender differences would be required to do so. Rather, this speculation is only meant to provide 'face validity' to the findings – on the face of things it is not strange to find that gender is linked to people's preference for the organizational dynamics perspective. Therefore, further research into this link would be justified. However, the overall conclusion about the importance of gender for executives' strategy perspectives is that gender seems to play only a very minor role.

15.4.2 Strategy Perspectives and Educational Area

Educational background is often cited as a factor influencing the cognitive map of executives (Hambrick and Mason, 1984, Walsh, 1995). In table 15.18 the one-way ANOVA test for educational area and the strategy perspectives is presented. This analysis yields only one significant result; the shareholder value perspective has a measurably different level of support across the different educational areas ($F=2,05$; $p<0,05$). Executives with a background in the physical sciences, engineering and economics are more inclined to look favorably on the shareholder value perspective, while executives who studied social sciences and law were much less supportive. This significant result was not found when looking at the strategy dimension scales (table 15.19). This is understandable, as the strategy dimension scale contains only 2 of the 6 shareholder value perspective items (see for more details section 14.3.2).

In interpreting this result, it is again difficult to isolate the educational area aspect, as there is a strong correlation between educational background, functional area and gender in this sample. Having said this, the link between a 'hard sciences' education (physical sciences, engineering and economics) and more support for the shareholder values perspective doesn't require a stretch of the imagination. People schooled with a focus on quantitative modeling, as well as a mechanistic view of systems, are more likely to feel an affinity with the instrumentalist view of organizations advocated by the shareholder value perspective. In the same vein, executives with a background in the social sciences and law should find the idea of organizations as coalitions held together by social contracts, as propagated by the stakeholder values perspective, more intuitively appealing. But again, this is initial speculation, based on a relatively small and biased sample. Yet, further research into this linkage does seem justified.

The other significant result in table 15.18 is for the global convergence perspective ($F = 2,07$; $p<0,05$), but this outcome needs to be looked at with caution, as the scale has a low reliability score (Cronbach alpha = 0,60). However, a similar result is found for the local adaptation dimension ($F = 1,62$; $p<0,10$), which is a reliable scale. Executives who studied physical sciences and engineering tend to lean over more to the global convergence side of the scale, while the social scientists lean more strongly towards the international diversity pole.

Again this result might be influenced by the fact that executives with a certain educational background are found more in certain functional areas. However, the finding still has considerable face validity. It could be argued that people with a physical sciences and engineering background pay more attention to the technological aspects of business, which are easier to standardize and integrate across borders, while the social scientists have been primed to identify social, political and cultural differences in the international environment. Additionally, it might also be the case that the technically-educated executives have been more trained at problem-solving, making them more attuned to seeing the opportunities in cross-border synergizing. Social scientists, on the other hand, might be more oriented towards analysis and coping with complexity, making them keener to accommodate the local differences.

The overall conclusion regarding the importance of educational background for strategic beliefs is that it seems to play only a minor role in shaping views on one or two dimensions. This does justify further research, but does not suggest that the impact of educational background is an overlooked major new area requiring significant attention.

TABLE 15.18
One-way ANOVA for educational area and the strategy perspective scales

	Perspective Scales	Physical Sc. (N=14)	Business (N=99)	Computer Sc. (N=8)	Economics (N=44)	Education (N=4)	Engin. (N=41)	Languages (N=2)	Law (N=15)	Math (N=7)	Medicine (N=4)	Philosophy (N=1)	Social Sc. (N=27)	Other (N=3)	Total (N=269)	F
1	Rational Reasoning	3,74	3,50	3,90	3,45	3,63	3,60	3,50	3,50	3,50	3,13	3,33	3,33	3,39	3,51	0,79
2	Generative Reasoning	3,53	3,67	3,40	3,60	3,65	3,55	3,40	3,52	3,83	4,00	3,80	3,74	2,93	3,62	1,02
3	Strategic Planning	3,87	3,86	4,08	3,70	3,92	3,89	3,58	3,47	3,86	3,33	4,17	3,48	3,33	3,77	1,55
4	Strategic Incrementalism	3,33	3,49	3,30	3,49	3,10	3,33	3,10	3,63	3,31	3,95	3,40	3,55	3,40	3,46	0,84
5	Discontinuous Renewal	3,27	3,09	3,15	3,06	2,75	2,94	2,80	3,04	3,11	2,50	3,60	2,65	3,47	3,02	1,33
6	Continuous Renewal	2,99	3,15	3,55	3,06	3,35	3,11	3,50	3,33	2,89	3,40	3,00	3,01	3,40	3,13	0,73
7	Outside-In	2,91	2,78	2,85	2,92	3,05	2,77	2,50	2,89	2,66	3,30	1,60	2,50	2,93	2,79	1,47
8	Inside-Out	3,51	3,45	3,58	3,24	3,17	3,56	3,75	3,29	3,67	3,54	3,17	3,40	3,67	3,43	1,00
9	Portfolio Organization	2,59	2,64	2,18	2,77	2,45	2,56	2,40	2,53	2,40	2,90	2,00	2,67	3,27	2,62	1,00
10	Integrated Organization	3,88	3,90	3,94	3,74	3,92	3,79	4,50	3,86	3,48	3,83	3,33	3,70	3,61	3,82	0,91
11	Discrete Organization	2,36	2,13	1,90	2,29	2,30	2,19	2,20	2,37	2,06	1,55	2,60	2,30	2,33	2,20	1,39
12	Embedded Organization	3,44	3,76	3,77	3,69	3,83	3,69	3,92	3,61	3,90	4,38	4,00	3,68	4,00	3,72	1,34
13	Industry Dynamics	2,46	2,51	2,85	2,53	2,25	2,50	2,60	2,52	2,51	2,55	2,40	2,51	3,47	2,53	1,13
14	Industry Leadership	3,40	3,26	3,55	3,25	2,90	3,27	3,10	3,25	3,23	3,30	3,00	3,14	3,13	3,26	0,48
15	Organizational Leadership	3,31	3,27	3,54	3,34	3,25	3,12	3,42	3,27	3,24	2,75	3,67	2,96	3,33	3,23	0,95
16	Organizational Dynamics	3,57	3,88	3,75	3,72	3,65	3,90	3,40	3,63	4,00	4,25	3,20	3,79	3,67	3,81	0,92
17	Global Convergence	3,29	2,90	3,13	2,90	2,96	3,13	2,75	2,71	2,81	2,67	2,50	2,53	3,00	2,91	2,07**
18	International Diversity	3,89	3,89	4,00	3,82	3,50	3,71	4,40	3,73	4,06	4,30	4,20	3,79	3,93	3,85	1,03
19	Shareholder Value	3,16	2,87	2,93	2,95	2,65	3,09	2,90	2,79	2,60	2,20	1,80	2,41	2,80	2,86	2,05**
20	Stakeholder Values	4,00	3,90	3,92	3,75	3,75	3,64	4,08	3,61	3,95	4,21	3,83	3,75	3,61	3,81	1,23

All F tests with (12,256) degrees of freedom; *** p<0,01; ** p<0,05; * p<0,10

TABLE 15.19
One-way ANOVA for educational area and the strategy dimension scales

	Dimension Scales	Physical Sc. (N=14)	Business (N=99)	Computer Sc. (N=8)	Economics (N=44)	Education (N=4)	Engin. (N=41)	Languages (N=2)	Law (N=15)	Math (N=7)	Medicine (N=4)	Philosophy (N=1)	Social Sc. (N=27)	Other (N=3)	Total (N=269)	F
21	Strategic Programming	3,43	3,39	3,64	3,21	3,42	3,47	3,50	3,05	3,37	2,89	3,56	3,13	3,04	3,33	1,39
22	Organizational Continuity	2,87	3,04	3,38	2,96	3,25	3,05	3,38	3,16	2,84	3,44	2,63	3,06	3,17	3,05	0,68
23	Resource Leveraging	3,37	3,51	3,60	3,25	3,25	3,52	3,92	3,26	3,67	3,46	3,33	3,52	3,39	3,45	1,08
24	Business Unit Autonomy	2,45	2,48	2,18	2,68	2,36	2,44	2,21	2,47	2,35	2,64	2,29	2,62	3,05	2,51	0,92
25	Firm Independence	2,31	2,17	1,79	2,37	2,42	2,26	2,25	2,34	2,24	1,58	2,50	2,30	2,39	2,24	1,43
26	Strategy-making Dispersion	3,26	3,47	3,20	3,35	3,38	3,54	3,06	3,28	3,63	3,97	3,00	3,52	3,38	3,44	1,09
27	Local Adaptation	3,67	3,86	4,02	3,88	3,43	3,61	3,93	3,77	4,18	4,04	4,29	3,96	3,71	3,83	1,62*
28	Stakeholder Responsibility	4,12	4,02	4,06	3,88	3,91	3,77	4,19	3,77	3,96	4,25	4,13	3,94	3,71	3,94	1,08

All F tests with (12,256) degrees of freedom; *** p<0,01; ** p<0,05; * p<0,10

15.4.3 Strategy Perspectives and Functional Area

While in the managerial cognition literature the variables gender and educational background are rarely put forward as key influences on executives' beliefs, functional background is often mentioned (e.g. Beyer et al., 1997; Markóczy, 1997; Waller, Huber and Glick, 1995). Sometimes the emphasis is on the functional area in which an executive has had the most past experience, based on the notion that executives unconsciously receive a *functional conditioning* (Chattopadhyay et al., 1999) that can have a long term impact on their belief system. Other researchers place more emphasis on an executives' current functional area, based on the assumption that its day-to-day requirements and related political interests (i.e. *functional demands*) more acutely influence an executive's cognitive map. As both arguments are convincing assumptions, the Strategy Profiler included questions to ascertain each respondent's most experienced functional area, as well as their current one.

In tables 15.20 and 15.21 the results of the one-way ANOVA tests are presented for the respondents' current functional area, while tables 15.22 and 15.23 show the results for their most experienced functional area. It should be noted that for some functional areas there were only a few respondents, while the number of respondents reporting their most experienced functional area was relatively low (N=90), as this question was only inserted half way through the research process.

What can be derived from these analyses is that functional background seems to be linked to quite a few strategic beliefs. Significant differences in average scores across the various functions can be found for the strategic programming, strategy-making dispersion and local adaptation dimensions. Each will be reviewed separately in the following sub-sections.

Functional Background and Strategic Programming Dimension

When looking at the respondents' current functional area, a moderately significant link can be identified with the strategic planning perspective ($F=1,75$; $p<0,10$) and the overall strategic programming dimension ($F=1,82$; $p<0,10$). Executives working in the areas of human resource management, research and development, and other staff departments are on average less inclined to support the strategic planning perspective, while executives in the area of marketing and information management lean more over to the strategic planning pole. Executives in sales, finance and operations, as well as general managers, are in between these two groups. This linkage is not found when looking at the respondents' most experienced functional area (see table 15.22 and 15.23), which would suggest that the influence is not due to functional conditioning, but to the current functional demands experienced by executives. Their views seem to be influenced by their current position, not by a previous one (i.e. "where you sit determines where you stand").

One explanation for the link between current functional area and strategic programming orientation could be that executives who need to plan their own functional activities years ahead in considerable detail will have a more positive view of strategic planning than executives who do not experience this pressure in their functional area. Typically, new activities in the area of information management (e.g. new IT systems) and marketing (e.g. new products) demand more of such detailed forward planning, while new activities in the area of human resources and other staff functions do not require such long term planning horizons, but rather short term responsiveness to unfolding circumstances. Following this logic, it is not surprising to see that executives in the area of R&D score the lowest on the strategic programming dimension, as they cannot develop long term plans for their functional activities either, but rather need to build on the discoveries they make in an incremental way.

TABLE 15.20
One-way ANOVA for functional area and the strategy perspective scales

	Perspective Scales	Gen. Mgmt (N=48)	Finance (N=28)	HR (N=11)	Info Mgmt (N=13)	Marketing (N=38)	Operations (N=16)	Purchasing (N=2)	R&D (N=16)	Sales (N=21)	Strategy (N=2)	Other Staff (N=20)	Other (N=39)	Total (N=254)	F
1	Rational Reasoning	3,46	3,42	3,53	3,46	3,49	3,56	4,33	3,42	3,69	3,25	3,34	3,50	3,49	0,69
2	Generative Reasoning	3,61	3,41	3,98	3,63	3,71	3,25	3,80	3,39	3,61	4,30	3,65	3,74	3,61	2,26 **
3	Strategic Planning	3,76	3,76	3,55	3,91	4,00	3,80	4,58	3,32	3,78	3,92	3,66	3,66	3,76	1,75 *
4	Strategic Incrementalism	3,40	3,33	3,78	3,58	3,32	3,33	3,20	3,73	3,46	3,80	3,52	3,49	3,45	1,16
5	Discontinuous Renewal	3,18	3,01	2,78	3,08	3,18	2,93	3,50	2,74	2,95	3,40	2,98	2,86	3,01	1,09
6	Continuous Renewal	2,94	3,14	3,36	3,38	3,13	3,11	3,60	3,26	3,04	3,50	3,15	3,15	3,13	0,80
7	Outside-In	2,90	2,74	2,67	2,89	2,84	2,55	2,80	3,06	2,80	2,10	2,88	2,69	2,80	1,08
8	Inside-Out	3,45	3,42	3,79	3,60	3,46	3,35	3,83	3,34	3,45	3,25	3,16	3,33	3,42	1,19
9	Portfolio Organization	2,80	2,42	2,71	2,49	2,62	2,73	2,70	2,74	2,64	2,30	2,48	2,52	2,62	0,85
10	Integrated Organization	3,69	3,96	3,97	3,95	3,89	3,58	3,83	3,73	3,88	3,08	3,84	3,87	3,82	1,19
11	Discrete Organization	2,23	2,16	2,11	2,17	2,12	2,18	2,00	2,26	2,10	2,80	2,21	2,27	2,19	0,52
12	Embedded Organization	3,72	3,71	3,88	3,91	3,83	3,60	3,42	3,64	3,83	3,92	3,56	3,60	3,72	1,18
13	Industry Dynamics	2,58	2,56	2,31	2,60	2,42	2,54	2,90	2,54	2,39	3,00	2,66	2,51	2,52	0,83
14	Industry Leadership	3,19	3,26	3,36	3,66	3,36	3,21	3,90	3,15	3,48	3,00	3,08	3,13	3,26	1,73 *
15	Organizational Leadership	3,22	3,62	3,12	3,29	3,07	3,27	3,75	2,84	3,28	3,17	3,22	3,14	3,22	1,78 *
16	Organizational Dynamics	3,79	3,43	4,04	3,97	4,12	3,85	4,00	4,05	3,62	4,10	3,80	3,69	3,81	2,63 ***
17	Global Convergence	2,88	2,85	2,92	3,12	2,95	2,92	3,17	2,90	3,25	2,75	2,90	2,59	2,89	1,71 *
18	International Diversity	3,90	3,94	4,02	3,86	3,92	3,71	4,40	4,05	3,78	4,60	3,51	3,75	3,85	2,02 **
19	Shareholder Value	2,95	2,85	2,71	2,78	2,94	3,13	3,50	2,98	3,05	2,00	2,62	2,59	2,86	1,58
20	Stakeholder Values	3,73	3,79	4,03	4,10	3,96	3,65	4,50	3,76	3,67	4,00	3,80	3,71	3,81	1,49

All F tests with (11,242) degrees of freedom; *** p<0,01; ** p<0,05; * p<0,10

TABLE 15.21
One-way ANOVA for functional area and the strategy dimension scales

	Dimension Scales	Gen. Mgmt (N=48)	Finance (N=28)	HR (N=11)	Info Mgmt (N=13)	Marketing (N=38)	Operations (N=16)	Purchasing (N=2)	R&D (N=16)	Sales (N=21)	Strategy (N=2)	Other Staff (N=20)	Other (N=39)	Total (N=254)	F
21	Strategic Programming	3,32	3,30	3,17	3,44	3,61	3,36	3,89	2,94	3,32	3,28	3,17	3,24	3,32	1,82 *
22	Organizational Continuity	2,88	3,01	3,24	3,20	2,99	3,09	3,25	3,21	3,02	3,06	3,08	3,09	3,04	0,62
23	Resource Leveraging	3,43	3,42	3,74	3,56	3,46	3,55	3,75	3,23	3,41	3,50	3,15	3,48	3,44	1,19
24	Business Unit Autonomy	2,69	2,36	2,58	2,38	2,51	2,67	2,29	2,60	2,47	2,50	2,39	2,39	2,51	0,90
25	Firm Independence	2,28	2,17	2,08	2,15	2,15	2,21	1,92	2,19	2,21	2,75	2,36	2,31	2,23	0,64
26	Strategy-making Dispersion	3,43	3,05	3,64	3,50	3,67	3,41	3,38	3,77	3,29	3,69	3,48	3,41	3,45	2,69 ***
27	Local Adaptation	3,90	3,96	3,84	3,73	3,78	3,82	4,36	3,97	3,55	4,29	3,64	3,95	3,84	1,71 *
28	Stakeholder Responsibility	3,88	3,94	4,16	4,20	4,07	3,64	4,56	3,87	3,83	4,00	3,95	3,89	3,94	1,56

All F tests with (11,242) degrees of freedom; *** p<0,01; ** p<0,05; * p<0,10

TABLE 15.22
One-way ANOVA for most experienced functional area and the strategy perspective scales

	Perspective Scales	Gen. Mgmt (N=20)	Finance (N=11)	HR (N=3)	Info Mgmt (N=4)	Marketing (N=10)	Operations (N=15)	R&D (N=8)	Sales (N=11)	Strategy (N=1)	Other Staff (N=5)	Other (N=13)	Total (N=101)	F
1	Rational Reasoning	3,38	3,80	3,17	3,33	3,57	3,49	3,54	3,61	3,17	2,93	3,29	3,46	0,86
2	Generative Reasoning	3,76	3,49	4,13	3,45	3,86	3,49	3,50	3,25	4,80	3,96	3,83	3,65	1,89*
3	Strategic Planning	3,57	3,65	3,94	3,21	3,63	3,69	3,58	3,91	3,67	3,50	3,59	3,64	0,40
4	Strategic Incrementalism	3,61	3,31	3,73	4,00	3,70	3,49	3,75	3,07	4,20	3,44	3,51	3,52	1,51
5	Discontinuous Renewal	3,03	2,73	2,93	3,15	3,44	3,00	2,83	2,73	3,20	3,04	3,03	2,99	0,71
6	Continuous Renewal	2,72	3,07	3,47	3,15	2,94	3,03	3,15	3,18	4,00	2,88	3,03	3,01	0,84
7	Outside-In	2,82	2,69	2,47	3,20	2,54	2,76	2,83	2,93	2,60	3,32	2,82	2,81	0,86
8	Inside-Out	3,11	3,44	3,72	2,71	3,62	3,34	3,71	3,23	3,33	3,30	3,23	3,32	1,69*
9	Portfolio Organization	2,49	2,15	2,33	2,80	3,04	2,72	2,55	2,58	2,60	2,36	2,85	2,60	1,26
10	Integrated Organization	3,86	4,03	3,89	3,58	3,62	3,62	3,90	3,76	2,83	3,90	3,46	3,74	1,11
11	Discrete Organization	2,07	2,18	1,60	2,15	2,48	2,28	2,20	2,05	3,00	2,44	2,35	2,22	1,01
12	Embedded Organization	3,67	3,74	4,00	3,79	3,62	3,61	3,94	3,65	3,83	3,37	3,65	3,68	0,53
13	Industry Dynamics	2,54	2,89	2,27	2,75	2,66	2,53	2,63	2,56	3,60	2,72	2,48	2,61	0,97
14	Industry Leadership	2,97	2,93	3,47	3,95	3,64	3,29	3,13	3,05	3,00	3,40	2,94	3,17	2,75***
15	Organizational Leadership	3,12	3,88	2,78	2,96	3,23	3,21	3,10	3,33	2,67	3,50	3,05	3,24	1,58
16	Organizational Dynamics	3,87	3,29	4,27	3,90	4,10	3,83	4,08	3,20	5,00	3,60	3,62	3,74	2,76***
17	Global Convergence	2,91	2,70	2,56	3,00	3,18	2,98	2,67	3,02	3,00	2,87	2,67	2,88	0,86
18	International Diversity	3,80	3,78	3,93	4,10	3,86	3,43	4,10	3,73	5,00	3,84	3,71	3,78	1,79*
19	Shareholder Value	2,70	2,95	2,27	2,80	3,10	2,76	2,98	3,00	2,20	2,36	2,46	2,77	0,87
20	Stakeholder Values	3,80	3,71	4,17	4,04	3,80	3,62	3,85	3,50	4,17	3,60	3,94	3,77	0,96

All F tests with (10,90) degrees of freedom; *** p<0,01; ** p<0,05; * p<0,10

TABLE 15.23
One-way ANOVA for most experienced functional area and the strategy dimension scales

	Dimension Scales	Gen. Mgmt (N=20)	Finance (N=11)	HR (N=3)	Info Mgmt (N=4)	Marketing (N=10)	Operations (N=15)	R&D (N=8)	Sales (N=11)	Strategy (N=1)	Other Staff (N=5)	Other (N=13)	Total (N=101)	F
21	Strategic Programming	3,08	3,22	3,44	2,72	3,09	3,27	3,11	3,53	3,00	3,02	3,17	3,18	0,74
22	Organizational Continuity	2,79	3,16	3,29	3,09	2,75	2,98	3,13	3,18	3,50	2,90	2,98	2,99	0,68
23	Resource Leveraging	3,37	3,38	3,89	2,96	3,73	3,37	3,63	3,09	3,67	3,13	3,24	3,37	1,39
24	Business Unit Autonomy	2,36	2,14	2,24	2,75	2,89	2,66	2,45	2,48	2,71	2,31	2,76	2,52	1,23
25	Firm Independence	2,20	2,32	1,67	2,08	2,58	2,26	2,10	2,21	3,00	2,57	2,42	2,29	0,97
26	Strategy-making Dispersion	3,52	2,89	3,88	3,47	3,60	3,47	3,70	3,03	4,38	3,28	3,40	3,40	2,16 **
27	Local Adaptation	3,89	4,05	4,00	3,93	3,79	3,55	4,16	3,74	4,29	3,63	3,89	3,85	1,19
28	Stakeholder Responsibility	3,91	3,82	4,33	4,13	3,90	3,68	3,97	3,72	3,88	3,63	4,05	3,87	0,96

All F tests with (10,90) degrees of freedom; *** p<0,01; ** p<0,05; * p<0,10

An additional explanation is that executives in functions that are 'future opportunity creating' have a stronger need for structured strategic planning than executives in functions that are more 'future opportunity responding'. Marketing and information management executives might feel more need/pressure to create new opportunities and competitive advantage, making them more in favor of strategic planning, while finance, operations and sales executive might be more inclined to follow this lead, with HR and staff executives even further behind. In this logic, the more executives implicitly define their own role as 'following', the lower they will score on the strategic programming dimension.

Functional Background and Strategy-making Dispersion Dimension

Of all of the one-way ANOVA tests for functional background, the strategy-making dispersion dimension (as well as the underlying organizational leadership and organizational dynamics perspective scales) shows the highest F-values. When looking at the respondents' current functional area, a moderately significant link can be identified with the organizational leadership perspective ($F=1,78$; $p<0,10$), but a highly significant link can be seen with the organizational dynamics perspective ($F=2,63$; $p<0,01$) and the overall strategy-making dispersion dimension ($F=2,69$; $p<0,01$). On average, executives working in the areas of finance and sales lean over more towards the organizational leadership pole, while executives in the areas of marketing, human resources and R&D are further over to the organizational dynamics pole of the scale. Executives in operations and information management, as well as general managers, are in between these two groups.

This linkage is also found when looking at the respondents' most experienced functional area. Executives with most experience in sales and finance lean towards the "control side", while those with most experience in marketing, R&D and HR lean more towards the "chaos side". There is an even higher F-score for the organizational dynamics perspective ($F=2,76$; $p<0,01$), but their score for the organizational leadership perspective scale is just short of being significant ($F=1,58$). Therefore, the overall strategy-making dispersion scale has a slightly lower score for the most experienced functional area, than for the current functional area ($F=2,16$; $p<0,01$). This relatively high consistency between most experienced functional area scores and current functional area scores would seem to suggest that here there might be some functional conditioning taking place.

An explanation for why the average finance and sales executives in this sample are significantly less enthusiastic about broad participation in strategy-making than their colleagues in marketing, HR and R&D, could lie in a different experience of the value of employee input. In the areas of marketing and R&D new ideas and insights are generally not the exclusive domain of top management and therefore the involvement of a broader range of employees in developing new strategies can yield a richer assortment of options and better informed decisions. In other words, participation pays. Executives in the area of HR might experience the same effect first hand, but their appreciation of employee input into strategy-making can also be based on their strong people-orientation ("human resources are key") and their political interests (if good employees are important, so is the HR department). HR executives might also be supportive of bottom up strategizing because of its contribution to their goal of employee development. In finance and sales, on the other hand, the potential for co-creation seems to be lower. Executives might feel that employees can be a rich source of information, but not of insights, ideas and new opportunities. Therefore, their experience might be that involving more people in strategy-making adds extra complexity, without adding much extra value.

An additional argument is that finance and sales executives might actually feel that broader employee participation in strategy-making has a potentially negative effect beyond

extra complexity, as these employees might focus more on trying to negotiate their financial and sales targets downwards than on developing new opportunities. For finance and sales executives setting targets and deciding on budgets is always a tough job, involving a lot of political horse-trading and arm-twisting. For these executives, having strategies and general objectives set by top management makes the process of translating these into controllable targets and budgets much simpler than in a more "democratic" and "chaotic" approach.

Functional Background and Local Adaptation Dimension

The third dimension along which significant differences can be found for executives with different functional backgrounds is the local adaptation dimension. When looking at the respondents' current functional area, a moderately significant link can be identified with the local adaptation dimension ($F=1,71$; $p<0,10$), which is also found in the underlying global convergence perspective scale ($F=1,71$; $p<0,10$) and the international diversity perspective scale ($F=2,02$; $p<0,05$). On average, executives working in the areas of information management and sales and in staff functions lean over more towards the global convergence pole, while executives in the areas of finance and R&D are further over to the international diversity pole of the scale. Executives in operations, marketing, HR, and general management positions are in between these two groups. This significant result was not found for the most experienced functional area, suggesting that the executives' cognitive map for this issue seems to be shaped more by current demands than by past conditioning.

Finding a potential explanation for these results is even more speculative than for these previous results. It could be argued that some functions generally experience a strong pressure for global standardization and none more so than information management. In international companies there is no issue as complex as bridging different IT systems that have been developed according to local requirements, so it is not surprising to see executives in the area of information management with a stronger orientation towards globalization. In the same way, executives in other staff functions, such as legal, PR, risk management and corporate social responsibility, typically experience the advantages of one consistent policy throughout an international firm, explaining their position as less local adaptation oriented. Yet, following the same logic one might expect executives in operations and logistics to also be more globalization-minded, but in this sample they are not. On the other hand, one might expect that the functions needing the most flexibility to adapt to local conditions would be marketing, sales and HR. Yet, none of these scored higher than average on the local adaptation dimension; actually, sales executives in this sample were much more globalization-minded than their colleagues from other functions. It could be that executives in sales see more opportunity and efficiency in selling to large international clients and segments, and are less interested in fragmenting their efforts on a country-by-country basis. But again, all of this is highly speculative, given the small sample size, co-linearity of variables and overrepresentation of middle-aged Dutch respondents.

Explaining why R&D and finance executives are the most oriented towards local adaptation is even more difficult. Could it be that R&D executives by the nature of their research work are more primed to seeing differences, oddities and exceptions in a precise way, instead of looking for the broad common denominator? Or maybe people who go into R&D work tend to be more individualistic and extra respectful towards distinctiveness? Or perhaps it is in the interest of R&D executives to develop different products for different countries, bringing them extra budget and status? As for financial executives, could it be that they do not feel in a position to judge the viability of global standardization because they do not know the details of international market differences well enough? And could it be that they therefore have a preference for localized responsibilities and accountability?

Conclusion on the Importance of Functional Background

While gender and educational background could be categorized as relatively minor influences on executives' strategic beliefs, the exploratory analyses done on this sample group suggest that functional background is a much more important factor. Amongst those surveyed, significant differences have been found between executives from different functional areas along three of the eight strategy dimensions (strategic programming, strategy-making dispersion and local adaptation), implying that a person's current functional area could be a factor shaping their strategic cognitive map. Along the strategy-making dispersion dimension it was also found that executives most experienced functional area was linked to their strategic beliefs, indicating that their cognitive maps are not only shaped by current functional circumstances (*functional demands*), but also by past experiences and learnings (*functional conditioning*).

What the precise functional circumstances or experiences are that have an impact on belief formation remains to be researched. In the discussion above, a number of arguments have been put forward that could be the building blocks of proper hypotheses, but much needs to be done to gain a clear understanding of the influence of functional area on the mind of the strategist. But what can be concluded is that functional area is a promising variable for further research.

15.4.4 Strategy Perspectives and Nationality

The last categorical variable for which a one-way ANOVA test has been carried out is nationality. Country of origin has often been cited as a factor influencing the cognitive map of executives (e.g. Bigoness and Blakely, 1996; Kotha et al., 1995; Markóczy, 2000; Schneider and de Meyer, 1991). It is argued that growing up in a particular national culture has a long term conditioning effect on a person's beliefs and behavior (i.e. cultural imprinting or cultural programming; e.g. Hofstede, 1994; Trompenaars, 1993). Similar to the discussion on functional conditioning and functional demands, some researchers place less emphasis on a person's *cultural conditioning*, but more on the *institutional demands* of the national environment that a person is currently working in (e.g. Hitt et al, 1997; Scott, 1995; Welsh et al, 1993). These demands include formal institutions such as laws, governments and organizations, as well as informal institutions such as cultural beliefs, values, norms, habits and networks. Strictly speaking, then, the two best variables here would have been 'most lived in national environment during formative years' (to capture cultural conditioning) and 'current national work environment' (to capture the dominant institutional demands). However, following convention only the nationality of the respondent was recorded, as this is easier to ask and for most people is the same as where they grew up and are currently working.

In table 15.25 the one-way ANOVA test for nationality and the strategy perspectives is presented, while table 15.26 shows the results for nationality and the strategy dimensions. Both tests yield a large number of significant results, suggesting that nationality is an important factor in understanding differences in cognitive maps between executives. Significant results can be recorded for the strategic programming dimension ($F=3.00$; $p<0,01$), the resource leveraging dimension ($F=1,48$; $p<0,10$), the strategy-making dispersion dimension ($F=1,84$; $p<0,05$), the local adaptation dimension ($F=1,90$; $p<0,05$) and the stakeholder responsibility dimension ($F=2,52$; $p<0,01$). Furthermore, for the rational reasoning perspective (for which no reliable strategy dimension could be created) there is also a significant result ($F=2,01$; $p<0,05$).

However, given the limited number of respondents per country, speculation regarding the link between an individual country and an individual strategy perspective is rather useless. All that can be concluded from this exploratory analysis is that this track of research seems to be a very promising avenue for further work. Nationality seems important as determinant of strategic beliefs, although it remains to be established whether the effect is due to cultural conditioning or national institutional demands. And if national institutional demands are important, which ones shape beliefs most – e.g. legal systems, national business systems, educational systems, fiscal systems, informal networks or cultural beliefs and values.

One last exploratory analysis that can be conducted to check whether 'national culture' in the narrow sense of the word (joint beliefs, values and norms) is the important factor behind the observed differences in strategic beliefs across nationalities, is presented in table 15.24. In this analysis, each of the countries is placed on Hofstede's five cultural dimensions, using their cultural indices from past research (these scores are published on the website www.geert-hofstede.com). In this manner, the categorical variable 'nationality', with 19 separate countries and only a few entries per category, can be transformed into five linear variables, representing the five major cultural distinctions identified by Hofstede (1994)[4]. By then correlating these five cultural variables with the eight strategy dimensions, the results in table 15.24 have been found. Each of the four strategy dimensions with highly significant results will be discussed below.

TABLE 15.24
Correlations between Hofstede culture scales and the strategy dimension scales

	Dimension Scale	Power Distance	Individualism	Masculinity	Uncertainty Avoidance	Long Term Orientation
21	Strategic Programming	0,227 ***	-0,224 ***	0,293 ***	-0,024	0,043
22	Organizational Continuity	0,096	-0,086	0,044	0,018	0,097
23	Resource Leveraging	0,189 ***	-0,148 **	0,158 **	-0,055	0,091
24	Business Unit Autonomy	-0,025	0,076	0,021	0,001	-0,100
25	Firm Independence	-0,125 *	0,092	-0,051	0,037	-0,061
26	Strategy-Making Dispersion	0,053	0,055	0,045	-0,092	-0,039
27	Local Adaptation	-0,015	0,128 **	-0,202 ***	0,014	-0,062
28	Stakeholder Responsibility	0,251 ***	-0,178 ***	0,040	-0,180 ***	0,104

*** p<0,01; ** p<0,05; * p<0,10

Nationality and Strategic Programming Dimension

In table 15.26 the result of the one-way ANOVA test is reported for strategic programming across all 19 countries. This F-score of 3.00 is high and highly significant (p<0,01). In table 15.26 it can be seen that the differences across countries tend to be significantly correlated to cultural differences in power distance, individualism and masculinity:

[4] *Power distance* refers to the level of inequality seen as normal within a society. *Individualism* is the degree to which people prefer to act as individuals as opposed to groups. *Masculinity* is the degree to which a culture promotes tough values such as competition, assertiveness, performance and success. *Uncertainty avoidance* is the degree to which people prefer structured over unstructured situations. *Long term orientation* is the degree to which future-looking values such as saving and persistence are promoted over action and results.

TABLE 15.25
One-way ANOVA for nationality and the strategy perspective scales

	Perspective Scales	Austria (N=4)	Belgium (N=5)	Canada (N=3)	China (N=8)	Croatia (N=5)	France (N=6)	Germany (N=24)	India (N=27)	Italy (N=3)	Malaysia (N=1)
1	Rational Reasoning	3,96	3,77	3,17	3,40	3,80	4,00	3,86	3,59	2,94	4,00
2	Generative Reasoning	3,55	3,00	3,87	3,63	4,08	3,27	3,51	3,70	3,53	4,00
3	Strategic Planning	3,75	3,97	3,61	3,65	3,87	4,42	4,15	4,14	3,22	4,33
4	Strategic Incrementalism	3,25	3,44	3,47	3,40	3,52	2,93	3,43	3,27	4,47	3,80
5	Discontinuous Renewal	2,40	2,60	3,47	3,25	3,56	3,17	3,13	3,30	2,53	3,80
6	Continuous Renewal	3,05	3,20	2,47	3,25	3,40	3,13	3,10	3,49	3,60	4,00
7	Outside-In	2,45	2,56	2,20	3,03	3,08	2,80	2,91	2,81	3,07	3,80
8	Inside-Out	3,17	3,63	3,39	3,33	3,57	3,86	3,42	3,86	3,22	4,33
9	Portfolio Organization	2,40	2,28	3,00	2,40	2,84	2,77	2,64	2,70	3,60	3,40
10	Integrated Organization	3,79	4,20	3,50	4,13	3,90	3,86	3,91	4,09	2,83	4,00
11	Discrete Organization	3,67	3,90	3,72	3,79	4,07	3,86	3,55	3,90	3,61	3,67
12	Embedded Organization	2,00	2,08	2,27	2,28	2,36	2,03	2,30	2,10	2,67	2,80
13	Industry Dynamics	2,25	2,64	2,53	2,48	2,20	2,83	2,53	2,33	2,33	3,00
14	Industry Leadership	2,85	2,92	3,13	3,40	3,64	2,93	3,46	3,64	3,20	3,60
15	Org. Leadership	3,38	3,47	2,72	3,29	3,47	3,33	3,40	3,29	2,17	3,67
16	Organizational Dynamics	3,45	3,64	3,60	3,65	3,80	3,70	3,58	4,19	4,33	4,20
17	Global Convergence	2,83	3,37	2,56	3,44	3,13	3,14	3,22	2,89	3,00	3,83
18	International Diversity	3,70	3,80	4,20	3,65	3,92	4,10	3,83	4,30	3,67	3,60
19	Shareholder Value	2,95	3,64	2,40	3,13	3,28	3,17	2,96	2,87	3,33	3,80
20	Stakeholder Values	3,33	3,50	4,00	3,65	4,13	3,75	3,76	4,38	3,11	4,00

All F tests with (18,227) degrees of freedom; *** p<0,01; ** p<0,05; * p<0,10

TABLE 15.25 (continued from left page)
One-way ANOVA for nationality and the strategy perspective scales

	Perspective Scales	NL (N=129)	NZ (N=2)	Singapore (N=1)	Slovenia (N=5)	Sweden (N=3)	Switzerl. (N=1)	UK (N=13)	US (N=5)	Total (N=246)	**F**
1	Rational Reasoning	3,37	3,17	2,00	3,37	3,56	3,67	3,35	3,90	3,48	2,01 **
2	Generative Reasoning	3,63	4,00	3,20	3,56	4,13	4,20	3,58	3,48	3,62	1,08
3	Strategic Planning	3,59	3,50	4,50	3,87	3,67	4,00	3,68	3,97	3,76	2,56 ***
4	Strategic Incrementalism	3,54	3,50	2,60	3,64	3,60	2,80	3,28	3,24	3,46	1,39
5	Discontinuous Renewal	2,96	3,10	2,80	2,64	3,13	1,80	2,75	2,52	3,00	1,61 *
6	Continuous Renewal	3,04	2,50	3,20	3,76	3,13	3,20	2,86	2,80	3,12	1,47
7	Outside-In	2,73	2,90	3,20	2,84	3,27	2,60	2,89	2,52	2,78	0,87
8	Inside-Out	3,32	2,83	3,67	3,60	2,89	4,00	3,42	3,67	3,42	2,57 ***
9	Portfolio Organization	2,56	2,90	2,00	2,72	2,67	1,80	2,82	2,96	2,63	1,01
10	Integrated Organization	3,72	3,42	3,83	3,90	3,61	4,50	3,87	3,83	3,81	1,61 *
11	Discrete Organization	3,69	3,08	4,00	3,87	3,67	4,67	3,85	3,93	3,73	1,11
12	Embedded Organization	2,17	2,60	1,40	2,28	2,33	1,00	2,22	2,24	2,19	0,89
13	Industry Dynamics	2,61	2,20	1,80	2,64	2,27	2,00	2,51	2,16	2,52	1,18
14	Industry Leadership	3,17	3,40	3,40	3,04	2,93	3,20	3,17	2,96	3,25	1,75 **
15	Org. Leadership	3,21	2,33	4,00	3,27	2,94	2,67	2,96	2,97	3,21	1,39
16	Organizational Dynamics	3,76	4,30	2,60	3,44	3,60	4,80	4,09	4,00	3,80	1,86 **
17	Global Convergence	2,75	3,00	2,17	3,20	3,11	3,83	3,12	2,67	2,90	2,11 ***
18	International Diversity	3,79	4,10	4,20	3,72	2,80	4,40	3,71	4,08	3,85	2,35 ***
19	Shareholder Value	2,71	3,20	2,80	3,12	2,80	3,00	3,03	3,00	2,86	1,17
20	Stakeholder Values	3,77	3,50	4,67	3,53	3,50	3,33	3,65	3,80	3,80	3,07 ***

TABLE 15.26
One-way ANOVA for nationality and the strategy dimension scales

	Dimension Scales	Austria (N=4)	Belgium (N=5)	Canada (N=3)	China (N=8)	Croatia (N=5)	France (N=6)	Germany (N=24)	India (N=27)	Italy (N=3)	Malaysia (N=1)
21	Strategic Programming	3,36	3,33	3,26	3,31	3,40	4,00	3,61	3,77	2,70	3,44
22	Organizational Continuity	3,25	3,30	2,29	3,14	2,95	2,96	2,95	3,15	3,50	3,25
23	Resource Leveraging	3,46	3,43	3,56	3,50	3,13	3,72	3,48	3,81	3,33	3,83
24	Business Unit Autonomy	2,29	2,11	2,71	2,23	2,57	2,52	2,52	2,53	3,62	2,86
25	Firm Independence	2,17	2,17	2,33	2,25	2,13	2,03	2,33	2,05	2,72	2,50
26	Strat-making Dispersion	3,19	3,23	3,33	3,20	3,30	3,35	3,21	3,66	4,04	3,63
27	Local Adaptation	3,61	3,83	4,52	3,41	3,71	3,83	3,61	3,92	3,57	3,29
28	Stakeholder Responsible	3,56	3,73	4,00	3,80	4,15	3,94	3,88	4,44	3,29	4,00

All F tests with (18,227) degrees of freedom; *** p<0,01; ** p<0,05; * p<0,10

TABLE 15.26 (continued)
One-way ANOVA for nationality and the strategy dimension scales

	Dimension Scales	NL (N=129)	NZ (N=2)	Singapore (N=1)	Slovenia (N=5)	Sweden (N=3)	Switzerl. (N=1)	UK (N=13)	US (N=5)	Total (N=246)	F
21	Strategic Programming	3,13	3,17	4,00	3,27	3,19	3,78	3,37	3,58	3,32	3,00***
22	Organizational Continuity	3,01	2,63	3,13	3,65	3,00	3,38	2,99	3,05	3,04	0,89
23	Resource Leveraging	3,38	3,08	3,67	3,37	2,89	4,00	3,41	3,73	3,45	1,48*
24	Business Unit Autonomy	2,50	2,86	2,00	2,54	2,62	1,57	2,63	2,77	2,52	1,06
25	Firm Independence	2,27	2,83	1,33	2,30	2,50	1,17	2,19	2,17	2,24	0,99
26	Strat-making Dispersion	3,42	4,13	2,38	3,10	3,50	4,38	3,74	3,73	3,44	1,84**
27	Local Adaptation	3,95	3,64	4,29	3,57	3,24	3,43	3,64	3,89	3,84	1,90**
28	Stakeholder Responsibile	3,89	3,56	4,75	3,73	3,79	3,25	3,81	3,98	3,93	2,52***

- *Power distance and strategic programming dimension (0,227; p<0,01).* The more a culture is built on the principle of inequality, the more emphasis there will be on strategic programming. This correlation could be explained in two ways. First, in more hierarchical cultures strategy-making doesn't need to be top-down (see the lack of correlation between power distance and the strategy-making dispersion dimension), but there does need to be top-down control. The strategic planning pole of the dimension emphasizes the controlled character of the strategy formation process, in which everyone knows his role and plans can be implemented by means of a plan-do-check cycle. In less hierarchically-oriented cultures the top-down control offered by strategic planning is less important. A second explanation is that in cultures with high power distance employees look to the boss to make a decision which they can then implement, which is a clear hierarchical split of duties that fits well with a strategic planning approach. In low power distance cultures

employees expect to be involved in decision-making and feel more at ease without a plan sanctioned by the boss, which fits more with the strategic incrementalism approach.

- *Individualism and strategic programming dimension (-0,224; p<0,01)*. The more a culture is built on the principle of individual action, the less emphasis will be placed on strategic programming. This result can be explained by the fact that executives from more collectivist cultures like the quality of strategic planning to coordinate and optimize actions throughout the firm. Strategic planning is seen as highly effective way to get the firm to move as one. In cultures that encourage individual entrepreneurship and initiative such strategic planning can be seen as stifling, as collective coordination is experienced as bureaucracy. Strategic incrementalism, with its emphasis on experimentation, parallel initiatives and blending of successful ideas along the way is seen as an appealing approach for getting individuals to excel to the benefit of the company as a whole.
- *Masculinity and strategic programming dimension (0,293; p<0,01).* The more a culture is built on the principle of assertiveness and performance, the more emphasis will be placed on strategic programming. This correlation might be explained by the fact that a strategic planning orientation towards strategy formation gives a sense of being 'in control'; it offers the executives making strategy a feeling that they are taking charge of their own destiny and shaping their own future. In masculine cultures this type of assertive "plan or be planned for" attitude encourages executives to opt for the strategic planning approach. In more feminine cultures that emphasize cooperation, harmony and adaptiveness, strategic incrementalism is more popular, due to its more flexible approach to shaping the future.

Maybe just as important as the significant correlations that were found, are the correlations that turned out not to be significant. Neither uncertainty avoidance nor long term orientation were correlated to the strategic programming dimension in this sample. Of course, no hard conclusions can be drawn on this basis, but it is interesting that wanting to avoid uncertainty does not lead to more strategic planning and that a culture's time orientation also has no correlation with its preference for strategic planning or strategic incrementalism.

Nationality and Resource Leveraging Dimension

In table 15.26 the result of the one-way ANOVA test is reported for resource leveraging across all 19 countries. This F-score of 1.48 is just significant at the p<0,10 level. In table 15.24, however, much stronger linkages are found between nationality and the resource leveraging dimension. It can be seen that the differences across countries tend to be significantly correlated to cultural differences in power distance, individualism and masculinity:

- *Power distance and resource leveraging dimension (0,189; p<0,01).* The more a culture is built on the principle of inequality between people, the more emphasis will be placed on resource leveraging (i.e. the inside-out perspective will be given more weight, to the detriment of the outside perspective). This correlation can be explained using more or less the same type of argument as above, to explain the correlation between power distance and strategic programming (note that the resource leveraging dimension and strategic programming dimension have a strong positive correlation with one another; see table 14.8). Taking an inside-out perspective means staying close to the organization's current core competences, even at the risk of losing touch with the market developments. This approach to developing business level strategy is generally easier to plan and control, which makes it more suitable for cultures where power in organizations is concentrated at

the top. Taking an outside-in perspective means questioning the current organizational competences and therefore also the current power structure; in that sense, an outside-in approach is potentially more disruptive and undermining regarding the status quo, which is generally disliked in cultures with a higher power distance. To stray from the current organizational strengths and respond to new market developments requires considerable flexibility, entrepreneurship and empowerment, which all fit better with a culture of more equality and less centralization of decision-making power. A further factor might be that in low power distance cultures customers are also taken more seriously, while in high power distance cultures top management sees itself as more important than customers.

- *Individualism and resource leveraging dimension (-0,148; p<0,05).* The more a culture is built on the principle of individual action, the less it will emphasize resource leveraging. This result is consistent with the previous discussion, as well. Taking an inside-out perspective is not only more plannable and controllable, it also builds on the strengths of the current group of people in the organization. Leveraging current resources means using the collective abilities of the group, which fits well in collectivist cultures. Taking an outside-in perspective means rebelling against the current organizational skill set and taking the side of the market opportunity; it is about the visionary breaking away from the status quo, which works well in cultures with an individualist mentality. Not only are the more individualist cultures more inclined to encourage entrepreneurship and break-away initiatives, but they are also less worried about the disruptive impact that major shifts will have on the rest of the people in the company.
- *Masculinity and resource leveraging dimension (0,158; p<0,05).* The more a culture is built on the principle of assertiveness and performance, the more emphasis will be placed on resource leveraging. This result is very interesting, but somewhat more difficult to explain. One possibility is that more masculine cultures have a tendency to value "imposing/shaping" over "receiving/adapting", while they also accentuate "doing" over "listening". The inside-out perspective takes an organization's current strengths as a starting point and looking for opportunities of imposing these on the environment, which fits more with a masculine culture. The outside-in perspective, on the other hand, listens more attentively to external demands and is willing to adapt the organization to outside requirements, which fits more with a feminine culture.

Again, two cultural dimensions, uncertainty avoidance and long term orientation, did not correlate with the strategy dimension being reviewed, but in this case the lack of correlations was not as surprising. However, with some speculation one could envision how high uncertainty avoidance cultures would prefer to adapt inside-out than in the more discontinuous outside-in way, but this correlation was totally absent.

Nationality and Local Adaptation Dimension

In table 15.26 the result of the one-way ANOVA test is reported for local adaptation across all 19 countries. This F-score of 1.90 is significant at the p<0,05 level. In table 15.24 it can be seen that the differences across countries tend to be significantly correlated to cultural differences in individualism and masculinity:

- *Individualism and local adaptation dimension (0,128; p<0,05).* The more a culture is built on the principle of individual action, the more emphasis will be placed on local adaptation when developing international strategies. This correlation might be explainable in two ways. First, as individualistic cultures have more respect for differences between people and allow individuals the freedom to pursue their own goals, it is likely that they

will extend this principle to other countries as well, respecting their differences. In more collectivist cultures, on the other hand, where there is more emphasis on shared goals, views, tastes and interests, there is generally less awareness of, and tolerance towards, differences. Therefore, this might also be reflected in a lower score on the local adaptation dimension. A second explanation is that executives from more individualistic cultures have a preference for giving local executives a free hand at adapting to the local environment, not because the local environment is so different, but because they respect the principle of individual action by local executives. Conversely, executives from more collectivist cultures will prefer to coordinate an organization's activities across borders, thus lowering the freedom to locally adapt.

- *Masculinity and local adaptation dimension (-0,202; p<0,01).* The more a culture is based on the principle of assertiveness and performance, the less emphasis will be placed on local adaptation. This correlation coefficient is actually quite high. The potential explanation that fits best with the previous discussion is that the whole principle of "masculinity" is at odds adaptation. More masculine cultures have a tendency to value "imposing/shaping" over "receiving/adapting", which makes them strongly sympathetic to the global convergence creed. The very definition of "feminine" cultures is that they are sympathetic to the idea of "giving way", cooperating and adapting, which makes them strongly inclined towards the international diversity perspective.

Interestingly, in this sample power distance was not correlated with local adaptation, although one could have speculated that higher power distance would make a culture less open to seeking local adaptation. For the other two culture dimensions, uncertainty avoidance and long term orientation, the lack of correlation is more easily understood; neither globalization or localization creates more uncertainty, while neither of the two is more long term in orientation either.

Nationality and Stakeholder Responsibility Dimension

In table 15.26 the result of the one-way ANOVA test is reported for stakeholder responsibility across all 19 countries. This F-score of 2.52 is high and significant at the p<0,01 level. In table 15.24 it can be seen that the differences across countries tend to be significantly correlated to cultural differences in power distance, individualism and uncertainty avoidance:

- *Power distance and stakeholder responsiveness dimension (0,251; p<0,01).* The more a culture is based on the principle of inequality among people, the more emphasis is placed on stakeholder responsiveness. This very strong correlation can be explained by looking at the paternalistic streak that is prevalent in high power distance cultures. Generally, in societies power comes with rights and duties; the more power a person or organization has, the more it is expected that they wield their power wisely and protect the weak. Therefore, in such high power distance cultures it is more common to expect that top management will be responsive to the needs of all stakeholder groups and will strive towards the common good. In lower power distance societies, on the contrary, this paternalistic value is less pronounced, as it is assumed that each individual or group has more means to assertively look after their own interests. In such low power distance cultures, outcomes are the consequence of negotiation between stakeholders, not the result of top management taking on the responsibility for the stakeholders' well-being.
- *Individualism and stakeholder responsiveness dimension (-0,178; p<0,01).* The more a culture is based on the principle of individual action, the less emphasis will be placed on

stakeholder responsiveness. This intuitively appealing correlation seems easy to explain; if everyone is thinking of themselves first, they are less inclined to worry about the neighbors. Stated more formally, in cultures in which individual freedom and interests are promoted over and above collective interests and collaboration, it is less likely that executives will feel that it is their responsibility to serve all stakeholders equally. In more collectivist cultures, on the other hand, executives are more likely to embrace the value of pursuing a shared purpose, thus more strongly supporting the stakeholder values perspective.

- *Uncertainty avoidance and stakeholder responsiveness dimension (-0,180; p<0,01).* The more a culture is based on the principle of clear rules and structures, the less emphasis is placed on stakeholder responsiveness. A potential explanation for this finding is that cultures with high uncertainty avoidance dislike the vagueness of "social responsibility". In such cultures there is a strong preference to define relationships, set rules and clarify expectations, so that everyone knows what they are responsible for. The idea of stakeholder responsibility implies a moral obligation to work towards the interests of all stakeholders, even where there is no legal necessity to do so. However, for executives from high uncertainty avoidance cultures this is all rather vague and uncertainty inducing, making them less supportive of this way of thinking.

In light of the ongoing discussion regarding the alleged short-termism of shareholder value thinking (e.g. Blair, 1995; Charkham, 1994; Sternberg, 1997) it is interesting to note that no correlation was found in this sample between long term orientation and stakeholder responsiveness. This is definitely an area that justifies further research.

Conclusion on the Importance of Nationality

As the above exploratory discussions make clear, nationality is clearly the most promising independent variable reviewed in this chapter. Using a one-way ANOVA test, five of the eight strategy dimensions showed a significant result, while correlating the strategy dimensions with the Hofstede culture dimensions produced significant results on four of these dimensions (only the strategy-making dispersion dimension didn't show up in Hofstede analysis).

As mentioned throughout, these analyses are only exploratory in nature and the dataset is not ideal. However, the purpose of this first sweep has been to scout for variables that show promise for further research; variables that seem to have an important impact on the strategic cognitive maps of executives. In that perspective, the results presented in the previous pages clearly underline the conclusion that international differences, in particular regarding national culture, are one of the most – if not *the* most – promising variables for further research on the determinants of strategy belief formation.

Chapter 16

CONCLUSIONS AND FUTURE RESEARCH

16.1 INTRODUCTION

In this last chapter, it is the intention to look back and to look forward. In looking back, the objective is to answer the question 'what can be concluded out of all the research done?'. To draw these conclusions, first a summary of the main findings will be presented, followed by a review of the implications of these findings for theory. Both the summary and the implications can be found in section 16.2.

In looking forward, the question is how researchers and executives should respond to these findings. In section 16.3, the most promising avenues for future research will be presented. Attention will be paid to follow-up research directed at improving the strategy perspective measurement instrument, but mostly towards further research made possible by the existence of the instrument.

16.2 SUMMARY AND CONCLUSIONS

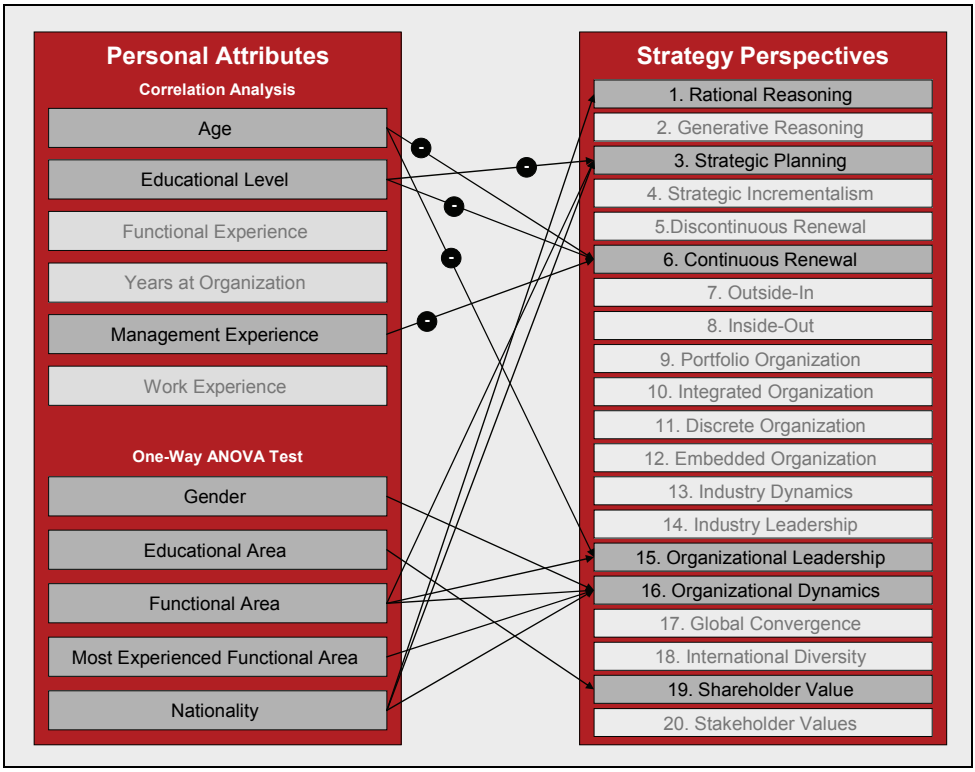
This research project has been about mapping the mind of the strategist. That executives have strategy-related belief structures has already been demonstrated in a variety of research studies (for overviews see Walsh, 1995; Porac and Thomas, 2002). Yet, this past work has been mostly qualitative and *emic*, focused on giving a rich understanding of the cognitive maps that executives have about specific strategic situations. Where the research has been quantitative and *etic*, it has been directed at measuring executives' beliefs about a very narrow range of strategic issues. What has been missing is a mapping instrument that could identify the most important strategic assumptions in executives' cognitive maps and could be used across all organizations, industries and nations. In their contribution to the *Handbook of Strategy and Management*, Porac and Thomas (2002) stated: "It is very clear that we need to identify mapping methods with a less qualitative researcher-driven orientation and with a design which can prove to be applicable and reliable across a range of cognitive studies." This project has been about developing this mapping method. It has been the aim of this study to create a universal measurement method for quantifying executives' core strategy beliefs along a limited number of dimensions, to make individual and cross-group comparisons simple.

The first step of this research project was to develop a comprehensive conceptual framework about differing core strategy beliefs. The resulting *strategy perspectives framework* (published earlier by De Wit and Meyer, 2004) predicted that executives can have differing strategy beliefs along ten specific dimensions. In this framework, the twenty poles of these ten dimensions are referred to as strategy perspectives. The second step was to

translate these twenty qualitatively-described strategy perspectives into twenty quantitative strategy perspective scales. These measurement scales were brought together in a web-based survey instrument, the Strategy Profiler, which was used to quantitatively map individual executive's strategy beliefs. Of the 20 strategy perspective scales, 17 have proven to be reliable (Cronbach alpha > 0,65), while the other 3 require some further research, but show considerable promise (see section 16.3 for more on this issue).

The third and last step was to explore the distribution of strategy beliefs among the population. Although the sample used was not entirely representative of the general population of executives, a first scan of the relative frequency of each strategy perspective among different groups was made. By taking certain personal attributes of the executives as independent variables, it could be analyzed whether some strategy perspectives were more frequent among some groups than among others. For categorical variables this was done by means of a one-way ANOVA analysis, while for the linear variables a straightforward correlation analysis could be performed. The results of this analysis for the 20 strategy perspectives are summarized in figure 16.1. It should be noted that these analyses were carried out with an earlier version of the Strategy Profiler (the 3.0 version), because this dataset was richer. As many of the scales were not reliable in this version of the instrument, they have not been employed in the analysis (and have been shown in the figure as light gray).

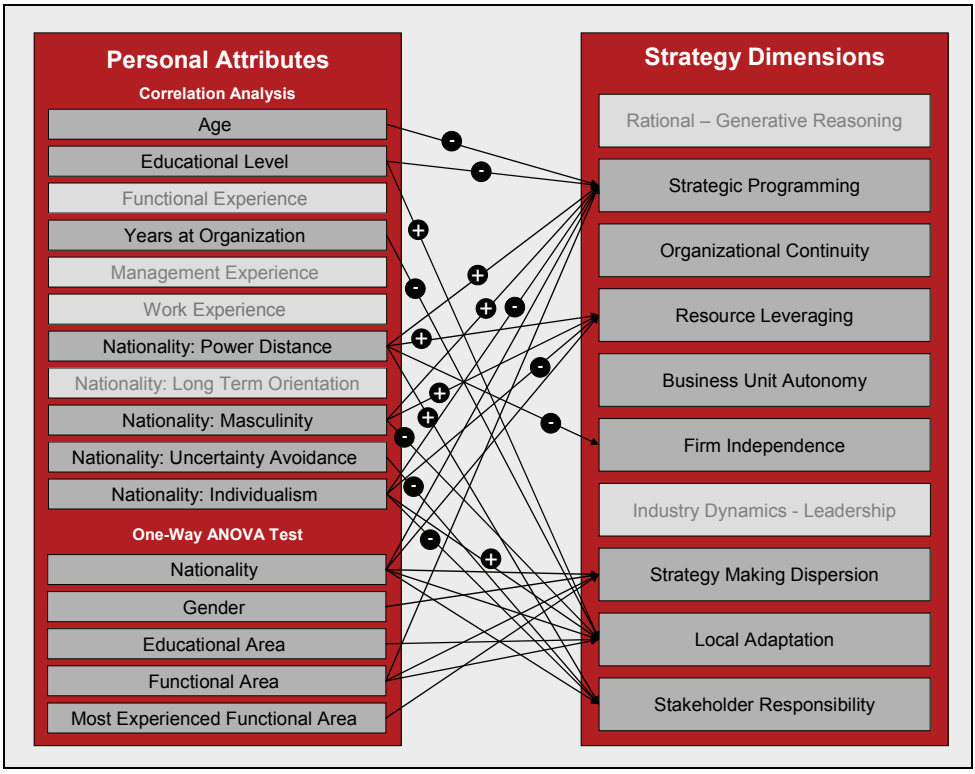
FIGURE 16.1
Linkages between personal attributes and strategy perspective scales



Note: The personal attributes in light gray did not yield any significant results. The strategy perspectives in light gray were not used in the analysis because their Cronbach alpha was below 0,65.

As so many of the strategy perspective scales could not be used in this analysis, 'composite' strategy dimension scales were constructed, bringing together each pair of opposite strategy perspectives into one strategy dimension. Of these 10 strategy dimension scales, 8 were judged to be sufficiently reliable (Cronbach alpha > 0,65). The linkages between the personal attributes and these 8 strategy dimension scales is presented in figure 16.2 (the two non-reliable ones are also light gray).

FIGURE 16.2
Linkages between personal attributes and strategy dimension scales



Note: The personal attributes in light gray did not yield any significant results. The strategy dimensions in light gray were not used in the analysis because their Cronbach alpha was below 0,65.

Of course, all these 'linkages' do not necessarily signify causation. What they suggest is that the strategy beliefs are not spread at random across the population of executives, but that there is a pattern (either a 'correlation' or an 'uneven distribution of means'). Recognizing these patterns, and inductively identifying the factors that seem to be linked to the variation among respondents, has been intended as the stepping stone towards theory building and a next phase of hypothesis-driven theory testing.

Given this summary of the research findings, the question remains what can be concluded on the basis of this material. In the following subsections the three most important implications for theory building will be put forward and discussed. First, it will be reviewed what can be concluded about the structure of executives' strategic beliefs (*mapping the mind of the strategist*). Second, it will be assessed what can be concluded about the content of executives' strategic beliefs (*understanding the mind of the strategist*). Finally, some building

blocks will be discussed that could be used in constructing a theory on the development of executives' strategic beliefs (*influences on the mind of the strategist*).

16.2.1 Mapping the Mind of the Strategist: The Structure of Belief Structures

The first main conclusion that can be drawn from this research is that there are a number of key dimensions along which executives' strategic beliefs often differ. There are not hundreds of dimensions, nor are there only two or three. This means that when we try to look into the mind of the strategist, we should not expect to find an extremely complex belief structure, with hundreds of ways in which strategists can have fundamentally different perspectives, nor should we expect to encounter fairly simple belief structures, where all strategic thinking is rooted in one or two overarching paradigms. The main structure of executives' belief structures is characterized by at least ten relatively independent dimensions, and while there might be more dimensions, these ten capture a large part of the differences of view between executives.

The assertion that there are at least 10 dimensions along which strategic belief structures differ is based on both the theoretical framework and on the various empirical analyses carried out in chapter 14. In the theoretical chapters, it was argued that there are ten key strategic issues faced by executives, each of which is characterized by a tension that can be managed differently. On the basis of this framework, it was expected that the ten strategic issues would translate into ten "dimensions of disagreement". This theoretical expectation was subsequently substantiated by three empirical tests. First, after measuring the executives' strategic beliefs along the ten theoretical dimensions, a correlation analysis was performed to check whether the dimension scales were sufficiently independent of one another (see section 14.3.1). While it was concluded that they were not entirely uncorrelated, the level of correlation was not such that two dimensions could be collapsed into one. This conclusion was supported by a second test, a factor analysis of the survey items (see section 14.3.2). As the items belonging to each different dimension actually loaded onto different factors, this was further reinforcement of the separateness of the ten dimensions. Finally, a third empirical test that was carried out was a cluster analysis (see section 14.4). In this analysis, no simple clusters of beliefs could be identified across the ten dimensions, indicating that there are no overarching paradigms informing choice across all dimensions. Even when looking at only 4 dimensions at a time, no simple clustering of views could be found, underlining the conclusion that the differences of views can not be simplified to a more limited set of strategy paradigms. Given the outcome of these three empirical tests, therefore, the conclusion can be drawn that the belief structures of executives can differ along at least ten dimensions.

Yet, why not along 50 or 100? This was not empirically researched, but here the strategy perspectives framework suggests that it is theoretically implausible that executives will have different beliefs along so many dimensions. It was argued that different strategy perspectives are rooted in fundamentally different assumptions about how to deal with challenging balancing acts (strategy tensions). Based on a broad scan of the strategic management literature, these ten core strategy tensions were identified. At the same time, the literature was scanned for different normative points of view – academics', consultants' and gurus' prescriptions of the best approach to go about strategizing. These 'strategy perspectives' were linked to the identified strategy tensions, leading to a largely consistent set of tensions and perspectives. A few missing perspectives (underrepresented points of view in the literature) needed to be added to complete the strategy perspectives framework, but no normative authors needed to be left out. Of course, this does not mean that the set of ten strategy tensions and twenty strategy perspectives is comprehensively exhaustive – a few important strategy tensions might have been missed, while some normative authors might

also have been overlooked. Yet, it is unlikely that many important differences of opinion in the literature have been neglected, while at the same time it is unlikely that many important differences in strategic beliefs between executives have not made their way into the strategic management literature.

Therefore, it can be concluded that these ten separate dimensions capture a large part of the differences in cognitive perspective between strategizing executives. And given this structure of executives' beliefs, this means that the measurement instrument developed in this research study indeed does what it was intended to do – to provide a universal mapping methodology for the most important strategic beliefs held by executives.

16.2.2 Understanding the Mind of the Strategist: Content of Belief Structures

After concluding that there are ten key dimensions along which executives' strategic beliefs differ, the second, linked conclusion is that almost all executives have largely consistent beliefs along each of these dimensions. Each executive's responses to a variety of statements coming from one strategy perspective were very reliable – they either steadily agreed or disagreed. Only a very small minority of respondents to the Strategy Profiler answered in an inconsistent way. This means that executives have internally coherent strategy perspectives. Executives have recognizable *sets of beliefs*, or *ideologies*, with which they interpret and react to strategic issues.

Interestingly, during the research project most participating executives at first did not see themselves as being driven by an ideology, but rather as down-to-earth pragmatists. However, once the strategy perspectives were explained and presented as differing strategy-making *styles*, acceptance was almost immediate. Often they could indicate their preferences before reading the results of the Strategy Profiler survey. Many could even map the positions of their colleagues on various scales and explain how these differing views often lead to disagreement.

Yet, while these executives had little difficulty embracing the concept of differing strategy perspectives and recognizing how this impacts strategy development, little attention is paid to this topic in the strategic management literature. During the last ten years, the field of managerial cognition has flourished immensely, but the focus has been on the *process* side – the way cognition works, how executives learn and how beliefs impact decision-making and action. Far less attention has been paid to the *content* side of managerial cognition – *what* executives believe. And where the content side has been examined, there has not been the ambition to uncover a typology of strategy perspectives. Hence, while such terms as 'cognitive map' and 'dominant logic' have made their way into the strategic management vocabulary, there are few 'maps of the cognitive maps' and few 'logical typologies of dominant logics'[5].

The conclusion that can be drawn here is that the strategy perspectives framework developed in this research study does offer a typology of strategic beliefs, one that is both theoretically and empirically robust. As such, this framework represents a good starting point for further work into the content of executives' strategic beliefs.

[5] Actually, much more attention has been paid to the differing beliefs of *strategy researchers* as opposed to strategizing executives, as can be seen in the discussions in the literature about various 'schools of thought' (e.g. Mintzberg, 1998; Volberda and Elfring, 2001).

16.2.3 Influences on the Mind of the Strategist: The Key Role of Learning

The third main conclusion that can be drawn from this research study is that executives' strategy perspectives do not seemed to be shaped by one, or just a few, simple factors. On the contrary, as can be seen in figures 16.1 and 16.2, quite a few personal attributes seemed to be associated with various strategic preferences, while each one of them seems to have only small to moderate impact on what executives believe. This means that in any follow-up research, it does not make sense to look for the 'key driver' of strategy belief formation, but that a broader set of influencing factors needs to be taken into consideration.

Having said this, the exploratory analysis carried out in chapter 15 did identify some factors that seemed to be much more influential than others. In particular, current functional area, most experienced functional area and nationality came forward as factors of importance, while other personal attributes such as gender, educational background, age, work experience and years in the company were much less influential. While it would go too far to draw any firm conclusions based on this exploratory research, these results do invite reflection, discussion and conjecturing on why some factors seem to be more important than others, as a contribution to theory development.

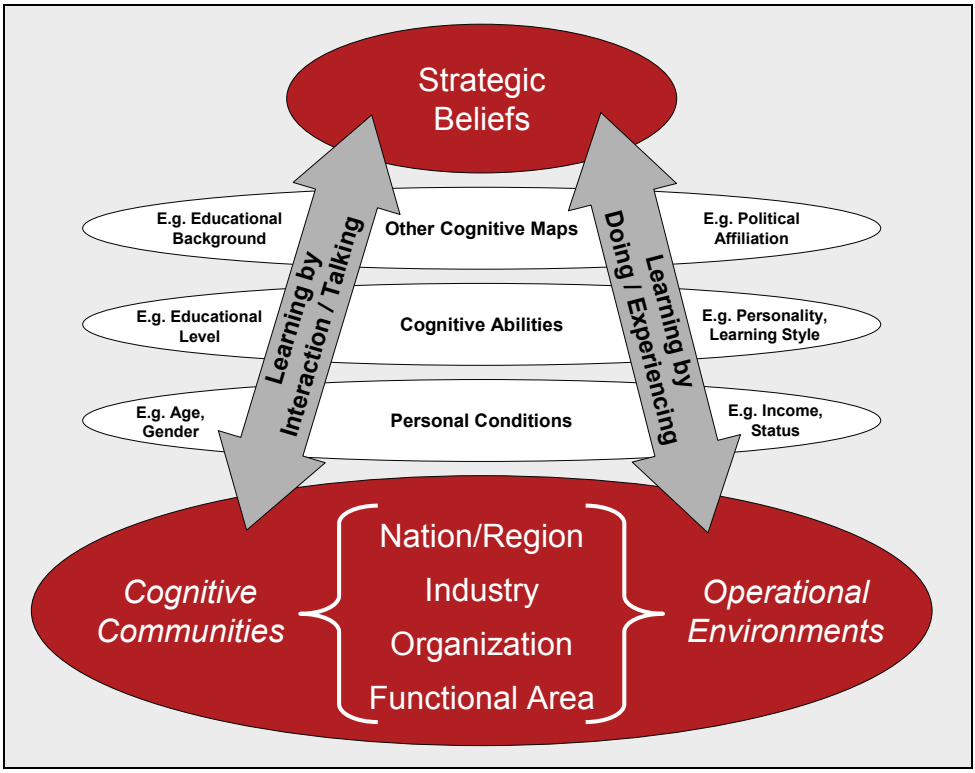
When reflecting on the empirical results, the first question is what the variables 'current functional area', 'most experienced functional area' and 'nationality' might have in common that makes them relatively influential. Initially, the personal attribute measures were selected as 'the usual suspects' and categorized into four clusters; demographic, positional, experiential and organizational. There was no model or hypotheses behind the selection or categorization of the variables. But in retrospect, it can be seen that 'current functional area', 'most experienced functional area' and 'nationality' all identify certain *cognitive communities* and *operational environments* in which executives must operate. A cognitive community is a group of people who influence each others' cognitive maps by interacting and exchanging ideas, views, methodologies, stories, habits and examples (Porac, Thomas & Baden-Fuller, 1989; Porac and Thomas, 2002). A broader way of stating that there is a cognitive community is to say that a group of people share a common culture (which is, after all, a shared set of beliefs, values and norms). Cognitive communities can be small groups of interacting individuals, such as functional departments, but also larger groups such as companies, industries or even nations. Being part of these cognitive communities means that executives will be exposed to the strategy perspectives prevalent in these groups, which can lead to adoption of these beliefs as well. One way of summarizing this effect is to say that in cognitive communities '*learning is by talking*' – cognitive maps are formed by the sharing of beliefs.

At the same time these functional, organizational, industry and national surroundings are operational environments that place specific demands on executives that need to be met. Each environment poses different challenges and requirements, leading executives to view the strategic issues they face in a particular way. This effect can be summarized as '*learning by experiencing'* – cognitive maps are formed as response to environmental demands and the results achieved by acting in this environment. Generally, being part of a particular cognitive community and operational environment go hand in hand (e.g. being part of the marketing community and working in marketing, or being French and working in France), but sometimes people shift to a new operational environment while only slowly growing into a new cognitive community (e.g. a marketer moving to the finance department or a French person going to work in Britain).

While these cognitive community / operational environment variables seem to be quite influential, a number of other variables seem to have less impact. However, in retrospect these variables also have something in common. Gender, educational background,

age, work experience and years in the company all do not influence learning directly, but only indirectly. They do not drive the sharing of ideas or the gaining of experience, but rather have an indirect impact by facilitating or inhibiting learning. For instance, age can have an impact on how open an executive is to sharing ideas or what is learnt from experience, and as such is a facilitating or inhibiting influence. The educational background of an executive initially shapes his/her cognitive map, which later influences how he/she will learn by talking about or experiencing strategic issues. This distinction between direct and indirect influences on strategy belief formation has been summarized in figure 16.3.

FIGURE 16.3
Direct and indirect influences on strategy belief formation

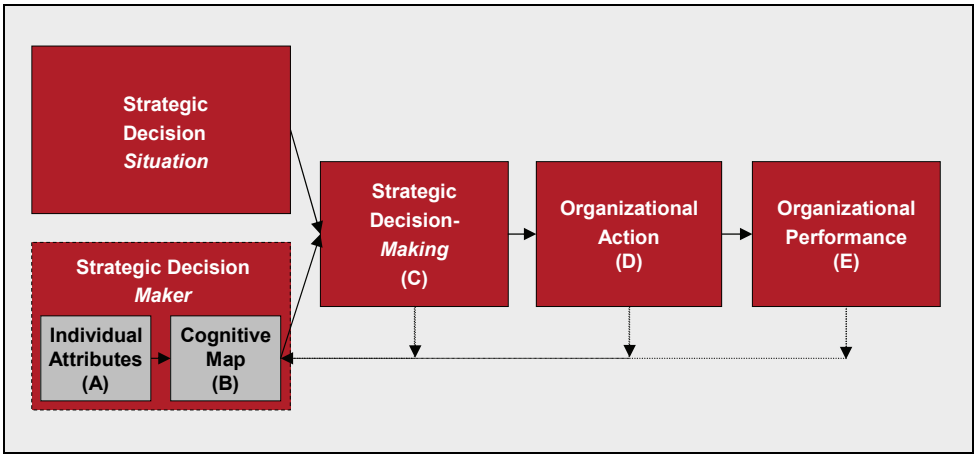


For theory building this distinction suggests that future emphasis should be placed on the relationship between various environments (functions, organization types, industries and countries) and a preference for particular strategy perspectives. For future empirical research this distinction underlines the importance of collecting data about each executive's organizational and industry background, in addition to the information about functional area, nationality and country of employment.

16.3 LIMITATIONS AND FUTURE RESEARCH

To paraphrase Bertrand Russell, as our island of knowledge about strategy perspectives has grown, so has the length of its shores with the unknown. After this research project we know a bit more, but we are even more acutely aware of all we still know little about. This study has been able to make a small contribution, but it has its limitations, both in scope and approach, and there is still much to be explored.

FIGURE 16.4
Exploring future research opportunities



Hence, when it comes to moving the research agenda forward, the first step is to revisit the limitations of this study, as they have been discussed throughout this study. An overview of these limitations will be presented in section 16.3.1. The next step is to explore and evaluate a number of the most important and promising research opportunities. These avenues of further research will be divided into three categories. First, in section 16.3.2, future research directed at improving our understanding of strategy dimensions, strategy perspectives and ways of measuring them will be discussed (in figure 16.4 this is coded as 'B'). Then in section 16.3.3 it will be reviewed what the possibilities are for follow-up research into the specific influences on the formation of executives' cognitive maps (in figure 16.4 this is the influence of A, C, D and E on B). Finally, in section 16.3.4 the options for researching the influence of strategy perspectives on strategic decision-making, organizational action and performance will be reviewed (in figure 16.4 the influence of B on C, D and E).

16.3.1 Limitations

Key to any research project is to make limiting choices, but then to acknowledge these limitations. In this study many research design choices have been made, both in terms of methodology and scope. The main design choices were introduced in chapter 1 and then discussed in detail in chapter 13. Here they will be briefly reviewed as a precursor for the discussion on future research:

- *Etic approach*. The strategy perspective measurement instrument is based on an etic approach, whereby the focus is on finding the common denominator across a wide variety of observations ("gesetz" instead of "gestalt"-oriented). Strategy beliefs are not studied in depth, in all their richness and variety, but broadly along a limited number of dimensions, in order to identify underlying structures and commonalities. The result is a relatively simple, universal tool for measuring complex strategy belief structures across individuals, organizations, industries and cultures. The key limitation of this focus on condensing data and looking for underlying "laws" or "principles", is that much of the diversity and richness is filtered out – complexity is reduced to simple dimensions, which doesn't do full justice to the strategic thinking of each individual.
- *Deductive approach*. The strategy perspective measurement instrument is based on a conceptual framework that was derived from theory, not one that was directly induced from practice. In this sense, the instrument is "hypothesis-driven", basing the items on theory-derived assumptions about what executives might believe. The result is a relatively simple and internally-consistent conceptual framework and measurement tool. The key limitation is that some strongly held strategic beliefs among executives that have not received much attention in the strategic management literature might have been missed while developing this framework.
- *Self-assessment approach*. The strategy perspective measurement instrument is based on a data collection method whereby individual executives report on their own beliefs. Statements are presented to executives for their evaluation, with the intention of eliciting their underlying strategy belief structures. Caution is taken to get to their actual beliefs and to avoid receiving socially-desirable answers. The result is a relatively simple web-based tool that can be administered to executives at a distance throughout the world. The key limitation is that a self-administered survey is susceptible to misunderstanding, socially-desirable answers and wishful thinking. Particularly the latter point is a concern – executives can only report on what they "believe that they believe" (their "espoused theories"), but these might not be the actually beliefs on which they act (their "theories-in-use").
- *One-off approach*. The strategy perspective measurement instrument is based on a single measurement moment, assuming that executives' beliefs are relatively stable over time. The result is a relatively simple testing approach, in which executives only have to complete the Strategy Profiler once. The key limitation is that the assumption of stability of belief structures over time has yet to be proven.
- *Sample of convenience*. In developing the strategy perspective measurement instrument it was not necessary to define the sample of participating executives upfront, as long as the overall group was sufficiently diverse in terms of functions, organizations, industries and countries. However, the resulting sample of convenience is not the best possible sample when testing specific potential correlations. Hence, the exploratory work carried out in chapter 15 needs to be seen as only that – exploratory. All future research will need to pay explicit attention to the appropriateness of the sample for testing specific hypotheses.
- *Unreliable scales*. While all of the previous limitations are inherent to the research design chosen, it must also be pointed out that in the Strategy Profiler 4.1 there are still three scales that do not meet the reliability threshold set in advance. The scales for the strategic incrementalist perspective, the shareholder value perspective and the stakeholder values perspective still have a Cronbach alpha below 0,65. Therefore, caution is required when these scales are used for any exploratory research.

The last "limitation" that needs to be mentioned doesn't actually belong on the above list, because it does not refer to a constraint or a deficiency of the research study. The last limitation is the restricted scope of the project. The focus has been on developing a strategy perspective measurement instrument (element 'B' in figure 16.4), not on researching the factors influencing strategy belief formation ('A') or on the consequences of having certain strategy beliefs for decision-making ('C'), behavior ('D') and performance ('E'). However, now that a valid and reliable measurement instrument is available, new horizons for future research have been opened, as will be discussed in the following sections.

16.3.2 Future Research into Strategy Perspectives

While there are many different ways to build on this research into strategy dimensions, strategy perspectives and instruments by which to measure them, here are five key areas where more attention would be of value. The first three are ways to compensated for the limitations of the current research study, as outlined above, while the next two are new avenues for future research:

1a. *Additional dimensions of strategy beliefs*. As was argued in section 16.2.1, it is not likely that dozens of strategy dimensions have been overlooked in this research study. Yet, on the other hand, it also seems unlikely that the existing set of ten dimensions is entirely complete. For example, during the research process the tension between *exploitation* (optimal use of existing resources/investments) and *exploration* (search for future opportunities) came forward as balancing act which seemed to evoke differences of opinion (see March, 1991). In discussions some executives emphasized the importance of stability and optimization, while expressing caution about new innovative adventures. Other executives were very vocal about the need to invest heavily in renewal and innovation, while willing to accept short term instability and lose of revenue. Such a strategic tension, with convincing arguments on both sides, has all of the characteristics of an additional strategy dimension, with differing strategy perspectives at each pole. Research should be directed at uncovering such potential new dimensions, measuring whether executives actually have consistently different beliefs about the issue and then checking whether this dimension does not coincide with another dimension.

1b. *Clarifying underdeveloped strategy perspectives.* Some of the strategy perspectives identified in the previous chapters have not been fully developed in the strategic management literature and therefore they needed to be pieced together in this study. So, for example, while the strategic planning, global convergence and industry leadership perspectives could be found in both the scientific and popular literature, the strategic incrementalism, international diversity and industry dynamics perspectives needed to be deduced out of a wide variety of sources. This meant that much conceptual fine-tuning work needed to be done based on the responses to the first three versions of the Strategy Profiler. In chapter 14, many new insights were derived that can be used to further strengthen our understanding of these strategy perspectives, yet much still can be done. In particular, the strategic incrementalism, shareholder value and stakeholder values perspectives require further conceptual work, before they can be turned into reliable measures.

1c. *Retest stability.* The current measurement instrument is a reliable measure of executives' current strategic beliefs. However, it cannot be ascertained how stable these beliefs are over time. Yet, the assumption made at the beginning of this research project was that it

was valuable to measure an executive's strategy perspectives, because these beliefs are relatively stable and will influence future decision-making. If, on the contrary, an executive's belief structures are not stable, but very fluid or changeable, then determining an executive's current state of mind is of fleeting value. Therefore, checking the assumption of stability over time, by retesting a number of respondents, would be a valuable confirmation for the whole approach taken.

1d. *Distribution analysis.* In the Strategy Profiler sample of 385 executives, preferences were generally not divided equally long each strategy dimension. In some cases, there was clearly a skewed distribution, as one side of the spectrum was much more popular than the other side (e.g. the international diversity pole). Besides this imbalance, the distributions also showed different peaks and troughs, in some cases peaking in the middle and tapering off to the poles (e.g. outside-in and inside-out perspectives), while in other cases showing separate peaks on both sides of the spectrum (the organizational leadership and organizational dynamics perspectives). However, these distributions were not researched here, because they would be much too dependent on the composition of the research sample. And as the research sample was a sample of convenience, not selected to be representative of any particular population, any results would have been meaningless. Yet, the question how prevalent the various strategy perspectives among executives are remains a very important one. Furthermore, are opinions highly divided or do they stay close to the middle ground?

1e. *Cluster analysis*. In section 14.4 a number of cluster analyses were presented, initially to check whether there are any overarching strategy paradigms consistently influencing executives' choices across four or more dimensions. There was no simple clustering found across all strategy dimensions, but more complex clusterings across three dimensions were identified in two cases. What was not done was to look at all clusters across three or even two dimensions, because of the sheer number of possibilities (45 possible two-dimensional clusterings and 120 possible three-dimensional ones). However, as a follow-up to the distribution analysis mentioned earlier, this analysis of how respondents are distributed across two or three dimensions simultaneously should be very interesting. It could give insight into common combinations of strategy perspectives that do not clearly show up in a simple linear correlation analysis. The most promising 'suspects' to review first are the strategy dimensions that already exhibit a correlation with one another (see table 14.8), as this suggests that they are linked together in some form. Of course, as remarked with the distribution analysis, it is important to base this analysis on a representative sample, otherwise it will be impossible to generalize the results.

16.3.3 Future Research into the Influences on Strategy Perspectives

As part of this research study, an exploratory scan was made of the potential influences on the formation of strategic beliefs. This first review of possible influencing factors showed that functional area and nationality seemed to be strongly related to the strategy perspectives of executives. This result would suggest that these two factors would be the most interesting direction for further research into the influences on strategy perspectives:

2a. *Link between nationality & strategy perspectives (A→B).* As was argued in section 16.2.3, it can be hypothesized that the most important impact on the strategic perspectives held by executives should be sought in the '*learning environments'* in which executives currently operate or have operated in the past. These learning settings form both the

cognitive communities in which executives exchange beliefs, values and ideas, as well as the operational environments in which they need to act and achieve results. One of the most significant learning environments would seem to be the nation in which an executive has been raised and works – executives are shaped by the national culture and national conditions in which they function. To check whether strategy perspectives are indeed influenced by national environments, a simple research design would be required in which a representative group of executives from two or more countries filled out the Strategy Profiler. With a sufficiently high sample size per nation, a country profile could be derived, which could be compared to other country profiles, to spot similarities and differences. Using the variable 'nationality' would not be sufficient, however, as some people with a passport from one country actually grow up in a second and work in a third. Therefore, besides nationality, two other variables should be collected, namely, 'most lived in country' and 'currently country of employment'. An interesting question here would be to measure whether past cultural conditioning is the most formative when it comes to strategy perspectives, or that the current cultural conditions facing ex-pat executives are a more dominant influence. At the same time, important theoretical work remains to be done, to explain why certain strategy perspectives are more prevalent in certain countries.

2b. *Link between functional area & strategy perspectives (A→B).* In the same way, an executive's functional area is an essential learning environment, priming his/her strategic beliefs. In this study, a first step was made towards collecting enough respondents per functional area, to be able to deduce a particular 'functional area profile'. In follow up research into this variable, it will be important, however, to isolate the effect of functional area influence by ensuring the representativeness of the sample on all other variables. Furthermore, as was introduced half way through this research study, it is also important to collect information on which functional area the respondents have the most experience in, as it might be different than their current functional area, but still extremely important for past conditioning.

Besides these two factors, that both came forward in the exploratory empirical work, some other directions for continued research can be deduced from the theoretical frameworks in figures 16.3 and 16.4:

2c. *Link between other learning environments & strategy perspectives (A→B).* In section 16.2.3 it was argued that executives operate in various learning environments at the same time. Not only are they part of a functional area and a national environment, but they are also part of a company and an industry. In the exploratory research, no data was available for these variables, but from a theoretical perspective, they do seem very promising for future research. When it comes to *industries*, a similar approach could be taken as for countries, whereby 'industry profiles' could be drawn up and compared to each other. Theoretically one might expect that different industries would have different strategy perspective preferences, given the often suggested differences of culture and operating demands (Porac and Thomas, 2002). However, sufficient numbers of respondents are needed per industry to be able to draw conclusions about structural differences in industry profiles. When it comes to differences in strategic beliefs between *companies*, it is probably more interesting to compare different categories of companies than individual companies themselves. So, it might be promising to compare strategy perspectives in small and large companies, local and international organizations, family-owned and publicly-owned firms, and market leaders and challengers. Another way of looking at learning environments is to distinguish various *management levels* (lower or higher

management) and *locations within the firm* (central or decentral). As these dissimilar environments will also exhibit diverse demands and draw executives into separate cognitive communities, differences in strategy perspectives might also be found.

2d. *Link between other individual attributes & strategy perspectives (A→B).* Besides these learning environments themselves, in which executives directly acquire ideas and experiences that shape their cognitive maps, there are various surrounding conditions that indirectly play a role by facilitating, inhibiting or coloring the learning process. These factors do not drive the process of strategic belief formation, but can indirectly influence the process. In section 16.2.3 these individual attributes were divided into three preliminary categories: *cognitive abilities*, *other cognitive maps* and *personal conditions*. In the category 'cognitive abilities' all aspects of the human mind can be placed that are linked to the 'hardware' of our brains, such as personality, intelligence and learning styles. These are the types of things that evoke a debate about nature and nurture, as at least parts of our cognitive abilities are determined by biology. Although it is difficult to measure such things as personality and intelligence, these constructs can be operationalized by using simple tests, like an MBTI for personality, or by using surrogate measures, like educational level for intelligence. In the second category, 'other cognitive maps', all related belief structures can be measured that might influence the learning of the executive. These can include other beliefs internalized via education ('area of study'), political activities ('political affiliation') or even one's religion. The third category is personal conditions and includes elements such as age, gender, status, income and work experience. All of these factors might have an impact on the learning of executives, but how and to what extent remains to be determined.

2e. *Link between decision-making & strategy perspectives (C→B).* Besides looking at the general influence of functional area, organization, industry and country, as suggested in 2a-c, it is also interesting to look more specifically at the influence of different strategic decision-making settings on the development of strategy perspectives. The question is how different types of strategic decision-making have an impact on the formation of strategic beliefs. Three categories of decision-making setting variables can be mentioned as particularly promising; *group composition*, *decision-making process* and *decision-making situations*. When looking at group composition, the issue is how the involvement of various people in the strategic decision-making processes can over time influence an executive's thinking. Variables can include the number of executives involved, the diversity of the group (in various ways), the role of the non-executive board members, the role of employees and workers' council and the role of external stakeholders and/or consultants. When it comes to the strategic decision-making process, the issue is how the structure of the strategy formation process in the organization influences executives' strategy perspectives. Variables can include the level and detail of strategic planning, the amount of participation and discussion throughout the organization and the use of certain methods and tools (e.g. portfolio matrix or balanced scorecard). When looking at the impact of strategic decision-making situations, it is particularly interesting to see whether certain crucial events actually have a lasting influence on executives' strategic beliefs. The archetype of such a situation is the Cuban Missile Crisis, where the decision-making situation left a lasting impression on the cognitive maps of all involved (see Allison, 1971). One way of researching this is to ask executives whether they have experienced certain types of decision-making situations (e.g. an acquisition, being acquired, a major restructuring), while a longitudinal approach would be to measure executives' strategy perspectives before and after a major strategic decision.

2f. *Link between organizational action / performance & strategy perspectives (D/E →B).* Executives learn by doing and experiencing the results of their actions, so it is also logical to research the impact of this learning on their strategic beliefs. One direction for further research could be to look at organizations implementing certain types of plans (e.g. an acquisition, a restructuring, a repositioning, a major foreign adventure, an alliance), to see how the strategy perspectives of executives change. Another research possibility is to see how executives respond to good or bad performance. Here, Miller's (1991) research into the effect of success on companies' long term behavior is an example of how success and failure can have an impact on the shaping of strategic beliefs.

16.3.4 Future Research into the Influence of Strategy Perspectives

What was not researched in this study at all was whether strategy perspectives actually have an influence on behavior. Do they matter? Or do executives make decisions and take actions without much regard for their stated beliefs? And if they act on their beliefs, what is the impact? Here, four areas for further research can be identified:

3a. *Link between strategy perspectives and organizational performance (B→E).* Independent of the management field being studied, the ultimate question lurking in the background is whether the object of study has an impact on organizational performance. Here, too, this question can be put forward. The straightforward way of looking at this issue is to research whether having one strategy perspective, or a cluster of strategy perspectives, is associated with better performance than others. The key complexity, however, is as always that it all depends on who's performance is being measured, what type of performance is being measured and on what type of time scale. Strategy perspectives are measured by individual, but most performance measures are at a much higher level of aggregation. It is rare that performance measures are available per team or department, and only occasionally are they available per business unit or geographic unit. Most performance data is only available for an entire corporation, making it necessary to focus on the link between the overall corporate 'strategy profile' and corporate performance. When it comes to selecting a measure of performance, relatively simple variables can be used such as profitability, growth, earnings per share, stock market value or market share, but also as more intricate measures such as innovativeness, competitive position, corporate sustainability or stakeholder value creation. And the time scale could vary from zero (strategy perspectives and performance are measured simultaneously) to infinity. However, as longitudinal research is generally much more difficult to carry out, there might be a preference to take a short time interval, but then there would be an issue of causation – if a strategy perspective and a certain measure of performance were correlated, which would be causing which? The lure of this avenue of research is huge, as it could lead to insights that could be translated into management prescriptions. Yet, the methodological issues brought up should not be underestimated.

3b. *Link between strategy perspectives and organizational action (B→D).* Instead of attempting to link strategic beliefs to performance, a more moderate ambition would be to try to link strategic beliefs to organizational behavior. This type of research would seem to have a higher probability of yielding robust results, as all three previously mentioned research difficulties are less problematic. First, on the issue of *level of analysis*, it is generally easier to measure organizational action at different levels of aggregation than performance. From individual and team, all the way to the entire corporation, behaviors can be measured per aggregation level, while aggregating executives' strategy profiles in

the same manner. This makes it possible to compare strategy perspectives to organizational action at any level of analysis the research wants. On the second issue, *type of measures used*, deciding what type of organizational actions to look at is also less problematic than deciding on the right performance measure. Each strategy perspective suggests a certain type of behavior, so it is this behavior that should be measured. For example, the embedded organization perspective advocates engaging in a variety of strategic alliances, so it is interesting to measure whether business units or firms in which this perspective is dominant have more and longer lasting alliances than others. The discontinuous renewal perspective promotes revolutionary strategic change, so it would follow that the best variables to track would be such things as changes in product portfolio, changes in management positions, changes in organizational structure and the number and length of change programs, to see whether units with this perspective exhibit a more revolutionary pattern of change. For each strategy perspective this question – do the executives act in accordance with their strategic beliefs – would be very interesting to research. On the third issue, *time scale used*, research designs also do not need to be complex, as long as the organizational actions measured take place after the strategy perspectives of the executives are measured.

The link between executives' strategy beliefs and their strategic decisions (B→C) has been saved for last, as it contains two critical issues that emerged during this study that fell just outside of the research scope, but that require further attention:

3c. *Link between strategy perspectives and acted-on beliefs (B→C).* The first issue was already brought up in section 13.2.2, where it was discussed whether there is a strong link between executives' *espoused beliefs* and their *acted-on beliefs*. Espoused beliefs are what executives say they believe, while acted-on beliefs are those actually used in practice. It could be that these two are exactly the same, but it is also possible that executives 'believe they believe' something, but that in reality they act on other beliefs. With any survey instrument, like the Strategy Profiler, it is the intention to get as close as possible to a person's fundamental beliefs, by attempting to circumvent socially desirable answers and by offering questions as close to practical decision-making as possible. However, all of this mapping is still *a priori*, while the acted-on beliefs can only be measured during the decision-making process or *a posteriori*. Therefore, a valuable research contribution would be in the comparison of *a priori* measured strategy perspectives and *a posteriori* measurement of acted-on beliefs. If the differences found were large, this would mean that executives have difficulty knowing or admitting what they believe in at the deepest level, which would be in itself an interesting finding. However, it would also mean that the Strategy Profiler mapping methodology would have to be fundamentally reviewed.

3d. *Link between strategy perspectives and decision-making processes (B→C).* Even if executives act on their espoused beliefs, it remains to be seen how having certain strategy perspectives impacts the strategic decision-making process. One of the most interesting questions begging to be researched is how the decision-making process is affected by the fact that executives have the same or different strategy perspectives. If the decision-making group is homogeneous / heterogeneous when it comes to their strategic beliefs, what are the consequences in terms of speed of decision-making, acceptance, rigor and innovativeness? And if there are similarities / differences between the decision-makers, which decision-making methods can be used to improve speed, acceptance, rigor and innovativeness?

For all of these research opportunities, being able to quantitatively measure strategy beliefs is essential. The Strategy Profiler measurement instrument offers this possibility. It is freely available to all researchers who wish to pursue any of these research opportunities.

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SAMENVATTING

(Summary in Dutch)

Deze studie gaat over het in kaart brengen van het denken van de strateeg – het kwantitatief meten van de denkbeelden van leidinggevenden over de beste manier waarop strategische vraagstukken zouden moeten worden benaderd. De doelstelling was om een betrouwbaar instrument te ontwikkelen waarmee deze strategische denkbeelden zouden kunnen worden gemeten, op een wijze dat het herbruikbaar zou zijn in een brede scala van cognitieve onderzoeken. Het zou een Hofstede-achtig, universeel instrument moeten zijn, dat strategische denkbeelden in kaart zou kunnen brengen over branche- en landsgrenzen heen.

Om dit te bereiken werd een conceptueel kader geconstrueerd, bestaand uit tien afzonderlijke dimensies waarlangs de strategiepercepties van leidinggevenden kunnen verschillen. Voor elke dimensie werden de twee polen (ook wel strategie perspectieven genoemd) kwalitatief beschreven en daarna omgezet in kwantitatieve meetschalen. Tijdens de studie werden deze twintig schalen bijeengebracht in een internet-gebaseerd enquête instrument, de Strategy Profiler, die gebruikt werd om de percepties van enkele honderden managers te meten.

Als afronding van de studie werd ook exploratief gekeken naar de mogelijke samenhang tussen allerlei persoonlijke karakteristieken en het hebben van specifieke strategie-perspectieven. Er werd gevonden dat enkele contextuele variabelen van managers zoals hun functioneel gebied en nationaliteit, significant gecorreleerd waren met een brede scala strategische denkbeelden. Dit resultaat geeft aan dat verder onderzoek naar de invloed van omgevingsfactoren (functie, organisatie, industrie en nationaliteit) op de strategievoorkeuren van leidinggevenden gewenst is.

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To achieve this, a comprehensive conceptual framework is presented consisting of ten distinct dimensions along which executives can have differing cognitive preconceptions. For each of the ten dimensions, the opposite poles (referred to as strategy perspectives) are qualitatively described and then translated into quantitative measurement scales. During the study, these twenty scales were brought together in a web-based survey instrument, the Strategy Profiler, which was used to quantitatively map hundreds of individual executives' strategy beliefs.

The study concludes with some exploratory research into the factors correlated with specific strategy beliefs. It is found that contextual variables such as functional and national background are significantly correlated with a large number of strategic beliefs. This suggests that further research into the impact of executives' environments (functional area, organization, industry and national context) on their strategic beliefs seem very promising.

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